



## The relationship between trade and sustainable development of agriculture in Central America

**By Carlos Pomareda and Carlos Murillo**

Additional contributions from Randall Arce, Max Valverde and Greivin Herandez (CINPE) and Rolando Zamora and Adriana Campos (SIDE).

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# International Centre of Economic Policy for Sustainable Development (CINPE)

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The CINPE was set up by the University Board on March 2, 1995, with the Netherlands' support, on the basis on the experience gained from the Master's Degree Program in Economic Policy for Central America and the Caribbean, which had been created nine years earlier.

The CINPE, a transdisciplinary institute of research specializing in economic policy, also deals with teaching, professional development and provision of services. Driven by the aim to promote sustainable development, the institute's guiding principles are the right to a better living standard, the sustainable use of natural resources, peace, democracy, the respect for ethnic and cultural diversity, and the rights of future generations. Such guiding principles underlie the analysis, evaluation and design of economic policies, at macro and at sector levels, including the impact and the valuation of natural resources and environmental services.

The multi-dimensional character of regional needs demands a balanced response that integrates social, environmental, economic and institutional aspects. This will be the only way to achieve sustainable development translated into ecologically- and socially-oriented patterns of production, consumption and regulation, and into an ethical and human commitment that takes into account the context of interdependence in which we live.

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# Introduction

This summary document highlights the main aspects of a study conducted by the International Centre of Economic Policy (CINPE is the Spanish acronym), with the cooperation of the International Institute for Sustainable Development (IISD)<sup>1</sup>.

The purpose of the research was (1) to characterize the recent evolution of agriculture and the trade of agricultural products in recent years; (2) to look at removing the environmental impacts of the productive processes and to provide support systems for agricultural and trade practices that promote the conservation of natural resources.

## Characterization and tendencies in agriculture in Central America

There is a great variation in the countries that comprise Central America. El Salvador is the smallest country with a high population density in contrast with Belize, which has the smallest population even though its territorial area is greater than that of El Salvador.

There also exist differences in the average income per capita of the countries. Costa Rica and Panama have been identified as having the highest average income per capita in the region, although the distribution of income in the latter is less equitable. On the other hand, Nicaragua and Honduras have the lowest income per capita in the region. Honduras has not had an economic recuperation over the last ten years, as is reflected in its GDP growth rate.

The main annual cultivation of Central America includes basic grains, coffee, banana and sugar cane. In recent years basic grains have reduced; sugar and banana have expanded slightly and coffee has remained more or less stable. Non-traditional crops such as cantaloupe, pineapple and flowers have grown in importance in cultivated lands, however, they have greater relative importance in the value of agricultural production and exports.

The Central American region is located in the tropics, and therefore it has great forest coverage. However, during the last fifty years the coverage has been considerably reduced to develop areas for pasture and basic grains followed by coffee, banana and sugar cane.

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<sup>1</sup>This research has been directed by Carlos Pomareda and Carlos Murillo, with the participation of Randall Arce, Max Valverde and Greivin Hernández of CINPE and Rolando Zamora and Adriana Campos of SIDE.

Within the context of Central American agriculture, it is important to differentiate groups or segments of actors and products. In the first case the following differentiation is made:

- a. The majority of small producers, with access to limited land and low quality resources, are usually located on the hillsides and produce for the local market or for personal consumption. A small number of these producers form part of the agro-export chain. Significant proportions have cattle livestock, but are not specialists in this area.
- b. The medium sized producers, which have some managerial capacity, include coffee, milk, poultry and eggs, fruit and ornamental plants producers. Many of them have established contractual relationships with other actors in the processing and marketing chains. They also are involved in exportation.
- c. The agro-industrial firms include those of basic transformation (rice mills, sugar refineries, coffee processing plants, cattle and poultry abattoirs) and more advanced agro-industries in the dairy sector, fruit processing, oil preparation and other agro-industries.
- d. Lastly, are the transnational firms that specialize in the production of banana and pineapple. For many years these firms have controlled large extensions of land and offer employment to the most-needy and least-trained agricultural labourers.

There are very important differences that exist within the aforementioned segments, in terms of the managerial capacity, competitiveness levels and responsibility with respect to environmental management.

With respect to the products, they are divided into three separate groupings:

- a. The first group is comprised of coffee, sugar cane and banana, which are predominantly cultivated on the hillsides and are crops that have been grown for a very long time. The main technological requirements are related to the quality of genetic material, which is resistant to diseases, such as the practices established for phytosanitary control.
- b. In the second group there are products that are cultivated on a lesser scale. These are dispersed in various zones and have been more recently introduced in the agricultural structure. These include vegetables and mini-vegetables for export, cantaloupes and strawberries (and other berries), ornamental plants and flowers. One can also include the poultry sector in this category. The technology for a major part of these products has been adapted from other countries. It also depends on imported seeds and high quality genetic material from poultry. The agricultural investigation in the region has been dispersed and discontinuous.
- c. The third group is comprised of basic grains, pasture and cattle livestock. These are the products of most importance to small producers. Large gains in productivity have not been achieved, and in general the tendency has been a reduction in production. The technology was developed especially by the public sector and it places emphasis on the genetic development of cattle and varieties of grains and pastures.

It is important to discuss the limit on the technological availability for these products, of which there is very little knowledge. One must be made aware that, with the exception of the poultry sector, a marked descent in the rates of performance and the total volumes produced has been observed. It is not known if this descent is the result of an inferior competitive capacity with respect to other regions in the world, a point of saturation in technology or both.

From this brief reference it can be concluded that:

- a) The products that have demonstrated the most dynamism were based on technology supplied from outside of the region.
- b) Those products which have benefited from subsidies, import tariffs and other distortions in the labour market (sugar cane and banana) or in established markets (coffee), had their technological supply from within the region, with strong participation in the private and public sectors; and
- c) The products, which have not gained in productivity and quality, depend on the efforts of the public sector for the generation of technology. There has been a marked reduction in the resources assigned to this area.

It can be shown that the attainment of greater levels of competitiveness does not necessarily contribute to the achievement of development objectives. However, the technology used could be a determining factor. This is the case with small producers, since they do not benefit from the available technologies.. The technologies have random results and are demanding in human and natural resource quality that the producers do not possess. These technologies can require high levels of investment, which are only justifiable in large scale operations. There are large gaps that exist between the generation of technologies that adapt to the capacity of the producers and the alternative to overcome their incapacity.

## **Tendencies and perspectives on agriculture and trade of agricultural products**

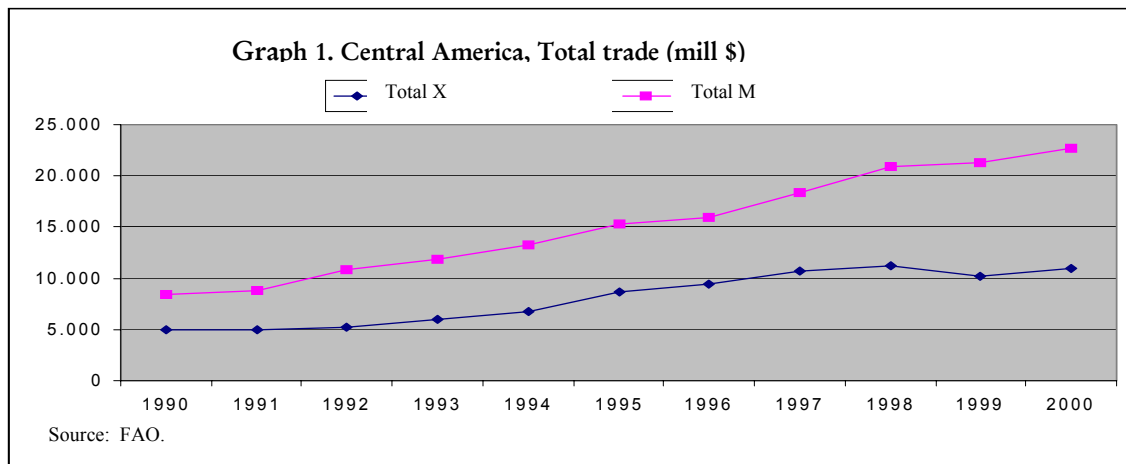
The total trade of Central American goods<sup>2</sup> (agricultural as well as non-agricultural) has been positive in the last ten years (See Figure 1). In addition, it demonstrates a regular annual growth rate. The exports and imports increased at an annual rate of 9.61 per cent and 10.51 per cent respectively.

In Graph 1 we can observe that over the last four years, the trade gap widened markedly, whilst in the earlier years the deficit was smaller. One factor influencing this behaviour was the existence of new trade agreements, which propelled imports more than exports.

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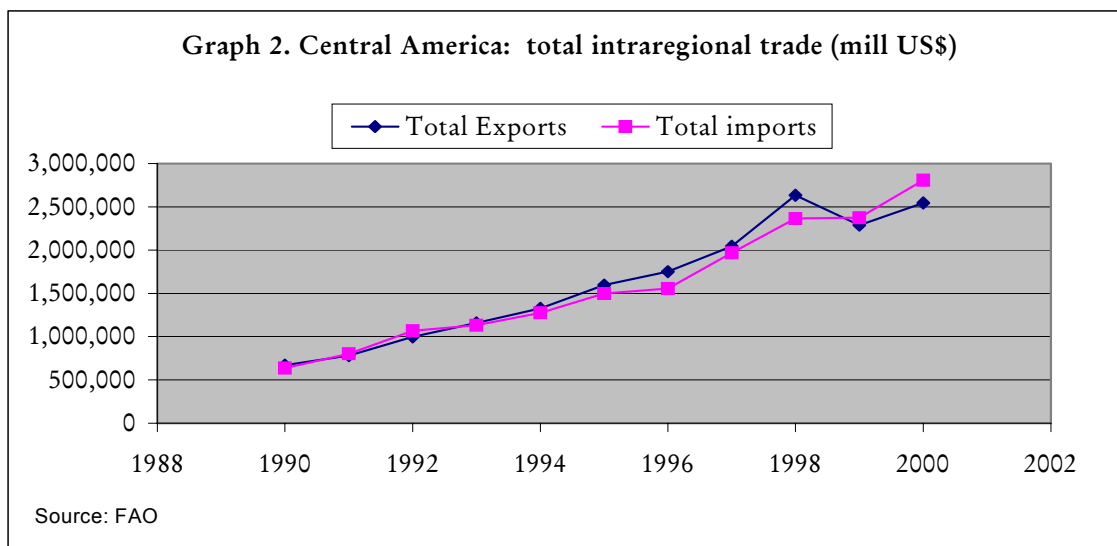
<sup>2</sup> The Central American region is formed by Costa Rica, Guatemala, Honduras, Nicaragua y El Salvador.





It is important to highlight that in the total trade, the trade balance was always negative. This means that the value of the imports was superior to that of the exports. In accordance with this, it can be affirmed that Central America is a net importer zone, since the average trade balance index is  $(X_i/M_i)$ , where  $X_i = \text{Total exports}$  and  $M_i = \text{Total imports}$  0.5. This means that the imports exceed the exports by approximately 50 per cent.

The development of Central American intra-regional trade has experienced continuous growth (See Graph 2). The data analysed show that the total exports among Central American countries grew at an annual rate of 13.90%, whilst the imports grew at an annual rate of 14.03%.

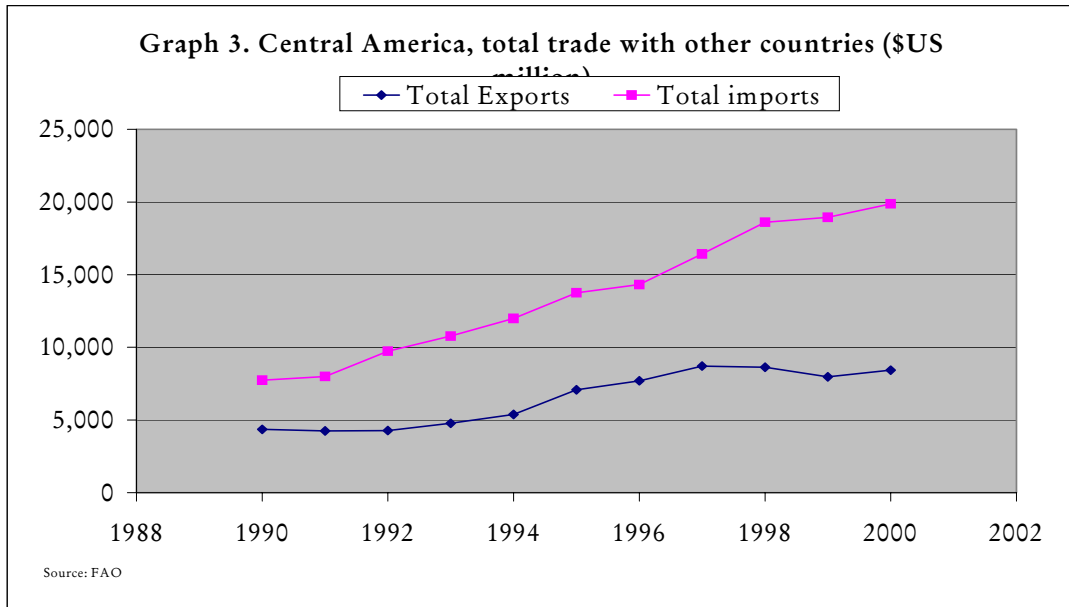


In addition, the participation of intra-regional imports, within the total imports of the region, was an average of 10.1 per cent, whilst the intra-regional exports represent an average of 19.3 per cent of the total exports.

Central American trade with third countries (See Graph 3) had a similar performance of total trade. Exports, which had been stagnant for several years, grew in the middle of the period (from 1993 to 1997) and have stabilized in recent years. On the other hand, the performance of imports was a little more regular throughout the ten years. There was a significant constant increase from 1992 to 2000, and this trend has been maintained. The

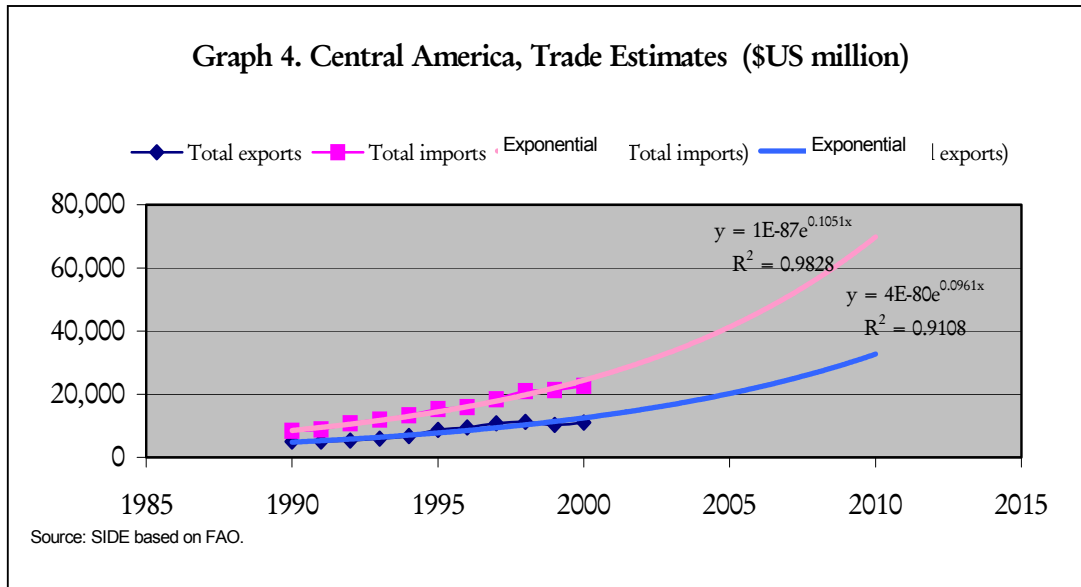
annual growth rate of imports was 10.1 per cent, whilst exports grew at 8.6 per cent annually.

In Graph 3 it can be observed that the gap between exports and imports increased sharply from 1996. This was influenced by the sharp increase in imports and a stabilization or stagnation of exports. This phenomenon is a clear result of the policies of trade liberalization adopted by the region, as well as the effects that they have had on the descent in international prices of agricultural products. The exportation of such products has lost attractiveness and raw materials have been imported more frequently and in larger quantities.

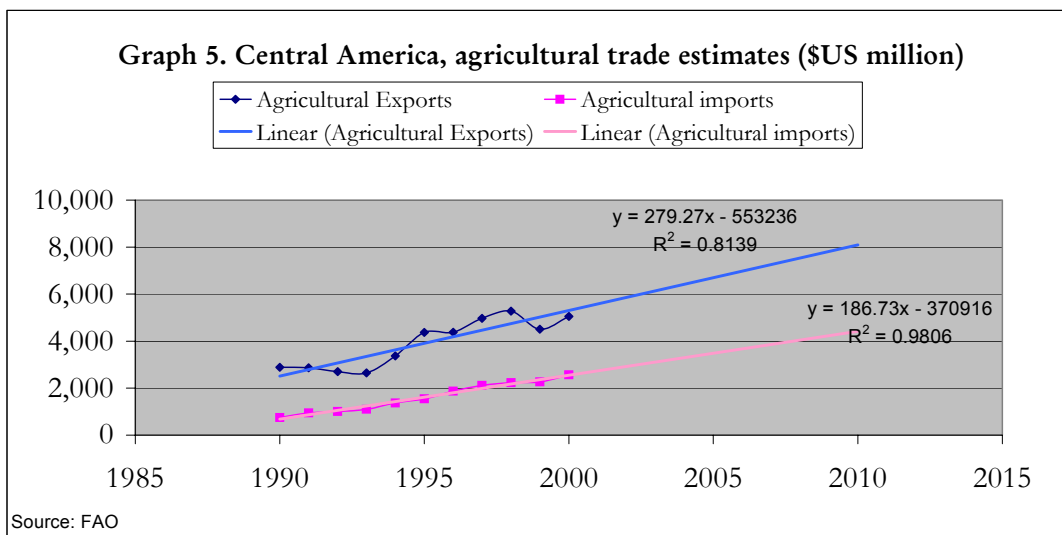


The trend in the trade of goods shows that the region would experience more rapid increases in its total imports than its exports, with consequent deficit pressures on the trade balance of goods. The expectation to raise foreign currency by means of supplying services, including tourism, will require greater attention.

Graph 4 shows, by means of an exponential projection, how the total exports and imports of Central America would perform by the year 2010. It can be observed that imports will grow at greater rate than exports, reaching a value of US\$70,000 million (21.8 per cent of growth in ten years) in 2010. Exports would also grow, but at a lower rate, reaching US\$31,000 million (180 per cent of growth in ten years) in 2010.



In Graph 5 we can observe the exponential projections of Central America’s agricultural exports and imports. Exports would increase to almost US\$12,000 million, which represents a growth of 140 per cent, whilst imports would reach US\$10,000 million, which represents a growth of 300 per cent.



The requirements of imports of raw materials for the basic agro-industry have been increasing, and it is perceived to continue growing in an exponential manner. This is the case of the imports of yellow corn and soya for the poultry industry, and in some

countries the importation of powdered milk for the dairy industry. In addition to these cheap raw materials, the most dynamic line of imports are processed products which generally have greater value added. The basic agro-industry is generally subsidized via subsidies for raw materials in third countries. Final products that could produce a more modern agro-industry are imported.

With respect to agricultural exports, it is imperative to change to products with greater value added. The tendency in the region is to continue to depend on generic products, whose potential in the international market is becoming more limited.

## **Agriculture and sustainable development against the various trade negotiations**

Support programs for agriculture in Central America should be seen as necessary, in the context of the number of negotiations around trade liberalization, in which the region participates. It must be taken into consideration that the processes in one way or another are interrelated, although it is not necessarily a coherent action. Central America faces a great challenge with the limited negotiation teams that must attend at least three processes. The processes have enormous demands that are not always equal: WTO-Doha, CAFTA (United States-Central America) and the FTAA.

At the level of the WTO, the environmental theme emerged strongly during Doha with the European Union as the driving force behind it. Besides the good intentions, environmental protection had acquired a relevant role in agriculture policy of this great block. There has been a trend towards Green Box payments (in principle they are not distorting, but there exist some doubts in this respect). In this form, the axis trade-environment-agriculture emerged.

The region must therefore look for internal support mechanisms, since it does not have the resources that are available to developed countries. In this context, it is necessary to be very careful in designing support media and deciding where the resources will come from. The fight for more possibilities of support could provoke the continuation of support programs that distorts trade relations.

With respect to CAFTA, there exists a close relationship among the products that Central America exports to the United States and the natural resources that it possesses. Forty-nine percent (49 per cent) of the total exports are agricultural products. It is clear that the United States will impose certain stipulations on environmental material. This theme is associated with mistrust and fear that it will be used in the form of a non-tariff barrier. It is most appropriate to deal with this area as an individual case, via cooperation agreements that emphasise the positive aspects of the relationship between trade-agriculture-environment. However, it is necessary to make advances in each negotiating table.

The environmental theme has not been assigned a specific negotiating table in the FTAA. In general, it is hoped that the topic is addressed in each of the other tables. For example, with respect to market access, four areas must be discussed: a) the limited or prohibited access for products that had a negative impact on the environment in their production.

This area is of great concern and cannot be considered a restriction to trade; b) preferential access for products that were produced by utilizing processes that have positive impacts on the environment; c) one quarter dimension of market access refers to products, whose packaging has negative impacts on the environment when it is disposed; d) finally, the aforementioned themes must give importance to the certification of products that are traded.

The challenge that must be faced is to achieve great imagination and convincing power, which will allow the creation of non-distorting support mechanisms from an economic point of view. The Green Revolution has provided the positive and negative fruits. The time has arrived to use free trade as a means of promoting instruments that provoke a technological conversion towards cleaner production. The reactive and defensive attitude towards this tendency must be converted to a proactive attitude, which permits the region's participation in the agricultural trade with reduced costs, added value and environmental improvement.

## **Environmental impacts of the principal agricultural activities**

This section presents in simple and qualitative terms the environmental impacts that are generated by some agricultural activities. It includes some activities that are destined for the external market and others for the national market. The following agricultural activities have been analyzed: banana, coffee, sugar cane, poultry, pork production, cantaloupe and corn.

The analysis was done via the construction of matrices that facilitate the identification of physical and chemical characteristics of the processes and their impacts on: land (soil); water (superficial and underground); atmosphere (quality); processes (erosion and attrition); flora and fauna; land use; socio-economic level (health and employment); services and infrastructure; salinization of soil and water; poisoning and invasion of weeds.

There is an evident relationship between agriculture and the environment, given that the agricultural sector is based on land, and impacts water, air, rivers and oceans. In general, it is based on the ecosystems and distinct productive stages impact on these ecosystems. This is evidenced in the matrices, which were constructed according to product, in this analysis. The products that were chosen in this study are important exports, and therefore form a major part of the productive structure of the countries in the region. The study makes it clear that each one of these productive processes has positive, negative, weak and strong effects on the environment. It also points out that the effects occur frequently in the water cycle and atmosphere. In addition, the study shows the increase in the use of agrochemicals in the productive processes, even with the introduction of some new technologies.

In the category of negative elements or challenges to be overcome, the high use of pesticides is in first position. Some products analyzed, particularly in the case of cantaloupe and banana, base their productivity on the high use of fungicides, pesticides, fertilizers, etc. In the case of cantaloupe, some studies suggest the levels that are higher than 45 metric tonnes of active ingredient per hectare per year (a.i./ha/year), and in the

case of banana 35 metric tonnes for a.i./ha/year. With respect to other products that were not included in the study, even higher volumes have been registered<sup>3</sup>.

In second place the medium most affected is the atmosphere. The reason for the atmospheric impact, is that products in one way or another emit contaminating substances or particles, in spite of the rational use of pesticides. This is the case with sugar cane, despite the fact that biological and not synthetic fungicides and insecticides are used, because the burning process provokes a high emission of carbon dioxide.

The producers of traditional crops such as coffee do not have a high environmental awareness. Many of the environmental problems observed in their activity have been overcome by other producers of non-traditional crops.

In the fourth position, there is a lack of public as well as private incentives for producers to convert their activities to production processes that are more environmentally friendly. There are no economic government incentives for organic producers. The public investigation of new technologies, substitution of chemical pesticides for biological pesticides or genetic improvement is scarce. There is no certainty that the producers, who convert and certify their production in such a way to be called “organic”, will obtain a higher price in the national market as compensation for their environmental commitment. In the international arena, the market for organic products is even smaller and underdeveloped. There exist non-tariff barriers like the onerous certification process. In addition, the distribution channels and product commercialization, like those for traditional products, are being taken over by large transnational chains, with some exceptions.

In the fifth position, a large part of the negative environmental impacts observed result from the lack of monitoring and effective control by the national environmental authority. Coincidentally, it could be verified in other studies<sup>4</sup>, which are different, that in Central America there exists abundant environmental legislation that in many instances are not enforced.

The reduction of these impacts is not impossible nor is it extremely expensive, if there is political and technical will to responsibly deal with the problem. There are many experiences, even within the group of products analyzed, of technological innovation that demonstrates the advantages of this type of conversion towards cleaner production processes. This means that the production process has to be organic or of that nature, but the possible impacts must be identified and studied. Studies must be conducted in conjunction with the private sector, government, investigation centres and international corporations, in order to obtain a viable solution for the long term.

Among the positive elements that exist is the profuse legislation on the environment. However, the government needs to enforce the legislation if a healthier environment is to be realized. Some non-traditional products, such as organic products, are traded in foreign

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<sup>3</sup> See Ministerio de Ambiente y Energía de Costa Rica (MINAE) and Programa de las Naciones Unidas para el Medio Ambiente (PNUMA) (2001), *idem*.

<sup>4</sup> SIDE (2001), *Producción agropecuaria limpia y certificable en Centroamérica*, CAC-CCAD, San José.

markets. A large part of the production of Costa Rican orange and pineapple juice work with organic type of environmental standards. This is evidence of successful cases that warrant further examination. Finally, the positive impact that Central American agriculture has on the rural sector must be highlighted including job creation and income generation which is earned from the production of basic foods.

There are also some motivating experiences in some crops which suggest that in the medium term the production processes will reduce the environmental damage that they cause. Among the initiatives taken are: (1) the gradual elimination of the use of methyl bromide in the harvesting of cantaloupe and watermelon; (2) the prohibition of the practice of burning prior to sugar cane harvesting in Costa Rica as a result of a constitutional ruling; and (3) greater use of biological agents for pest control in the cultivation of coffee and ornamental plants, instead of synthetic pesticides, which were traditionally utilized.

In general, it can be said that there exists practices in waste management (liquids, solids), in land use (salinization, erosion), forest management (biodiversity). Those practices, which are not carried out in a sustainable manner in the productive sectors, must be changed to avoid negative environmental impacts. The objective is to create an agriculture that is cleaner and more sustainable, from which comparative advantages can be derived and new market niches targeted.

The conversion process is becoming increasingly urgent, if the behaviour of the markets to which the region exports, is taken into consideration. Frequently, these economies create new environmental and health regulations that increase the demands and requirements of the products that are exported to those markets. The important element of this fact is that these regulations do not have to be part of the trade negotiation process. It is the legal authorities of these countries that determine the standards, which are conveniently created, once it does not discriminate between nationals and foreigners or among foreigners.

The conclusions of this analysis are summarized in the following aspects:

- a. Technological innovations have been made in all crops. However, in the majority of cases, these innovations are associated with the intensive use of fertilizers and agro-chemicals. This has an important repercussion on production costs and credit dependency, as well as environmental effects, especially in the contamination of water.
- b. The nurturing of birds and pigs, as well as the cultivation of ornamental plants, has dire environmental impacts, since the activity is localized and situated around urban areas. The perceived environmental impacts are air pollution and the contamination of underground water. These activities are exposed to an increasing pressure to relocate and comply with municipal and international norms, which are increasingly strict.
- c. Technologies and productive processes that permit positive environmental management exist, but are rarely applied in the productive activities of producers.

One of the reasons of this limited use is the lack of knowledge of the technologies and the perception (which is not always valid) that they are more costly.

- d. The failure to comply with environmental laws is the common rule. Although there are several reasons for this, such as ignorance of the law, in reality there is very little environmental awareness and interest in the topic. There are exceptions to the rule.
- e. The demands of minimal tolerance of residues of products, especially for exportation, product waste, the demands of eco-labelling and fledgling Central American consumer environmental awareness are contributing to the development of interest in environmentally friendly agriculture.

One can conclude from the analysis presented that information and the promotion of environmental management should receive special and immediate attention. The cooperation between environmental authorities is a priority task, in order to define shared responsibility programs.

## **Methods utilised and possible additional support for agriculture in Central America**

The decade of the nineties marked the beginning of the reform of the global agricultural sector, with the incorporation of certain disciplines with respect to agricultural product trade. Up to the end of the Uruguay Round, the trade of agricultural products was (and continues to be) one of the most distorted at the global scale. This was primarily due to subsidies, assistance and border measures applied by developed countries.

The result of the agricultural negotiations is expressed in four main parts: a) the list of concessions or specific commitments that each country must make as a prerequisite to join the GATT; b) the Agriculture Agreement (AA), which contains the rules and disciplines to normalize agricultural trade in the areas the countries established commitments; c) the Agreement on Sanitary and Phytosanitary Measures (ASPM); and finally, d) the Ministerial Decision with respect to less developed countries and developing countries that are net importers of food.

The support measures that are allowed to back agricultural development are the Green Box and the Amber Box. The major parts of the programs that are in the Green Box are not subject to commitments of reduction. They refer to projects to promote competitiveness, via technical support that the Ministry of Agriculture provides. There also exist programs that were specially created to promote certain crops, via technical support and training. The instruments of the Amber Box (measures that have an impact on trade patterns and flows) are included in the Aggregate Measurement of Support (AMS).

In the framework of approved support programs, developed countries continue to offer substantial support to their agriculture producers. They continuously redefine their support programs within the measures of the Green Box. In general, they have the liberty to increase the quantity of support programs.



The principle mechanism of support or assistance for the agricultural sector in Central America has been via instruments of the Green Box and “Special Treatment and Differentiation”, although the resources of the former are very limited. The measures of the Green Box are considered to have no significant impact on production and trade (in general the AMS calculation does not apply).

From the second half of the decade of the nineties, some countries in the Central American region have applied measures from the Amber Box. However, this type of support has not been often adopted for several reasons. Firstly, it is a high economic cost for countries that have recurrent fiscal deficits. Secondly, there is weak control and management of the resources given, which allowed the illegal enrichment of some “producers” at the expense of the contributors. Lastly, one is not capable to clearly define the benefits of these incentives. It would be worthwhile to analyze these themes in greater detail with respect to Central America.

The countries, which received the major quantity of support program resources of all types in its agricultural sector during the second half of the decade of the nineties, are in descending order; Costa Rica, Nicaragua and Guatemala. However, these figures do not even approximate the minimum amount given to developed countries and other countries in the region, such as Mexico. In the case of El Salvador, it was not possible to determine the amount which it reported to the WTO as being paid to agricultural support programs. Honduras has not presented a review of its trade policies. In general, the support programs for its agricultural sector and the amount paid in such programs is unknown.

The conclusion of the analysis in this section is that the Central American countries have a wide spectrum to establish support programs, which are permitted in the WTO agreements, for their agricultural sectors. The achievement of support depends on the effective dialogue between agricultural producers, the Ministries of Agriculture and the Treasury Departments.

## **Proposed Policies**

The main recommendations, which were made in this study, to promote agriculture and sustainable development in Central America, are classified as:

### **I. Recommendations for agriculture and environmental management:**

- To strengthen the institution of agricultural support programs in all countries, with the aim to provide them with the capacity to define and implement policies that are more congruent with the nature of the challenges of international competition and the conservation of environmental quality.
- To evaluate and share successful experiences and policies of support to the agricultural sector, such as in New Zealand and Australia.
- To evaluate and share successful experiences of support programs to the agricultural sector in the Central American region in recent years, with relation to their effectiveness and impact on competitiveness and the improvement of the quality of natural resources.

## **II. Recommendations for the area of agricultural negotiations that are being conducted:**

- To obtain special treatment for products denominated “sustainable” and that comply with two basic principles: 1) They are environmentally friendly and 2) They are produced under conditions that respect human rights and do not favour the poor distribution of wealth. In other words, sustainable products that are not produced with the use of slaves or children. In addition, the seller must have a participative and democratic organization (a cooperative).
- To obtain special contingents for clean products in the framework of contingent tariff systems, and the inclusion of clean products in the Generalized System of Preferences.
- To negotiate property resources of cooperation to support the sustainable development of the agricultural sector.

These simple recommendations form the basis for concrete action proposals for the Ministries of Agriculture, Trade and Environment. The starting point will be to attain effective cooperation among these ministries and develop of a common agenda for sustainable development of the agricultural sector.

The evolution towards more sustainable agricultural practices from an environmental point of view has three obstacles:

- a) The dominant production pattern, which has been modelled since the green revolution by large petrochemical empires that have tentacles in all the countries. Some transnational firms, for example the banana producers, obligate their suppliers to apply the whole technological packet of pesticides and fertilizers, even though the farm in question does not need such packet, if they want them to buy their fruit,
- b) Lack of meticulous investigation in biological controls and alternative pest controls, such as the investigation of natural fertilizers.
- c) Lack of resources for the technological conversion as a result of the lack of knowledge of the market of alternative production practices.

The present multilateral trade system contributes to the perpetuation of the actual production system and is a disincentive for change. The recognition of cleaner production is left up to market forces that are sometimes null or in other cases scarce. There is no tariff classification for products of cleaner production processes. Many developing countries emphatically deny the introduction of such a classification because it will imply a differentiation of productive processes. Finally, it is considered that certification, which was suggested as a means to identifying the final consumer, can be a technical obstacle that will increase the price of the product.. It was considered that the rest of the production would have to be certified as unsustainable.

It is believed that in order to avoid these obstacles the General System of Green Preferences (SIGPREVERDE is the Spanish acronym) should be established and made available to developing countries only. For some this does not make sense. On one hand, many of the products (be they sustainable or not) from developing countries enter the developed markets under a similar type of scheme. In addition, the successive negotiating rounds have reduced and will further reduce the actual levels of tariff protection. However, at existing tariff levels it is still possible to obtain gains in the short and medium terms. On the other hand, the advantages of a non-tariff cut will be presented.

It is worthwhile mentioning that based on a decision made in 1979, the developed countries can concede differential and most favoured treatment to developing countries, without conceding this treatment to other contracting parties. This is a violation of the Most Favoured Nation Principle. This facility will be applied:

- a) Preferential tariff treatment conceded by the contracting developed parties for products originating from developing countries, which conform with the Generalized System of Preferences
- b) Differential and Most Favoured Treatment with respect to the provisions of the General Agreement, from the perspective of non-tariff measures that are governed by the availability of instruments, which are multilaterally negotiated under the auspices of the GATT;

The unique conditions are the following:<sup>5</sup> a) The treatment is exclusive for developing countries; b) The system that is put in place must be generalized, without reciprocity nor discrimination. It's necessary to point out the fact that a preferential system like the proposed could improve the private investments in the sector, emphasizing environmental friendly technologies.

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<sup>5</sup> This was the definition of the Decision of the CONTRACTING PARTIES 25<sup>th</sup> June 1971, IBDD, 18S/26.