

WORLD TRADE ORGANIZATION

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Committee on Trade and Environment

REPORT OF THE MEETING HELD ON 18-19 FEBRUARY 1999

Note by the Secretariat

1. The Committee on Trade and Environment (CTE) met on 18-19 February 1999 under the chairmanship of Ambassador Chak Mun See (Singapore). The agenda in WTO/AIR/1007 was adopted.

Observer status for international intergovernmental organizations

2. It was agreed to extend observer status to the South Pacific Forum.

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Item 2 The relationship between environmental policies relevant to trade and environmental measures with significant trade effects and the provisions of the multilateral trading system

3. The representative of the European Communities referred to the importance which his delegation attached to the principles underlying this Item. The European Commission was awaiting the results of a study by external experts commissioned to help the EC to analyse the environmental impacts of trade measures and agreements. The Vice President of the EC, Sir Leon Brittan had announced in November 1998 that, in preparation for the 3rd WTO Ministerial Conference, the EC would undertake a sustainable impact assessment of the proposed new round, demonstrating the EC's commitment to sustainable development as the overriding objective of WTO work. It would be interesting to hear of similar work on how the WTO can contribute to sustainable development.

4. The representative of Canada referred to her delegation's intervention at a recent informal meeting of the General Council and solicited the views of others on the possibility of combining efforts to undertake an environmental review of the next WTO negotiations. As Canada was required to perform a national environmental review for these negotiations, as were several other WTO Members, it may be more efficient to work together. Canada welcomed suggestions on the scope and content of a possible collaborative review. It would also be important to review MEAs from a trade perspective. In this respect, domestic policy coordination between trade or economic ministries and environment ministries, domestically and internationally was important. Canada recalled that it had undertaken an assessment of the Uruguay Round which it would make available to the CTE.

5. The representative of the United States believed that environmental assessments of trade were useful enterprises for governments to undertake. The US had prepared a report at the end of the Uruguay Round which was available from the Secretariat. She suggested that Governments that carried out assessments could make them available through the CTE to share experiences in preparation for the next round.

6. The representative of India felt that environmental assessments should be undertaken in the national context and that each Member should draw the appropriate conclusions from their review.

7. The representative of the European Communities agreed with India that environmental assessments should be discussed at the national level. The EC was already discussing sustainability impact assessments informally with interested parties at home and with others. It would be difficult to ask the Secretariat to carry out this assessment as by the time it had been processed through WTO Bodies, such as the CTE, it might lose the necessary immediacy. Sustainability, to a certain extent, would need to be defined within each Member's national economic and social contexts.

Item 3(b) The relationship between the provisions of the multilateral trading system and the requirements for environmental purposes relating to products, including standards and technical regulations, packaging, labelling and recycling

8. The representative of Brazil introduced her delegation's paper (WT/CTE/W/108) which contained information on the development of environmental certification programmes for leather and forestry products. By presenting this national experience paper, Brazil was following the recommendations in paragraph 185 of the CTE's 1996 Report (WT/CTE/1) which set out the importance of WTO Members following the provisions of the TBT Agreement and its Code of Good Practice. In this context, the CTE had also underlined the importance of transparency and ensuring fair access of foreign producers to eco-labelling programmes.

9. The representative of Norway said that consumer information provided through eco-labelling was valuable to promote environmentally preferable consumption and production. Various proposals had been suggested to impose disciplines on eco-labels, including those based on life cycle criteria. Voluntary eco-labelling should be developed as an efficient, market-based instrument to complement national environmental policies; it should not contribute to arbitrary or unjustifiable discrimination between countries or disguised trade restrictions. Some "rules of the road" for eco-labelling programmes and criteria could be considered in the WTO drawing on work in other international organizations, particularly UNEP and ISO. These rules should be as simple as possible to achieve cost-effective application. Voluntary eco-labelling in combination with possible multilateral rules should aim to give consumers impartial, accurate and relevant information, thereby enabling choices which had a positive environmental impact.

10. The representative of Canada said that although the Secretariat's paper (WT/CTE/W/101-G/TBT/W/103) cited recent studies which concluded that environmental requirements need not restrict market access, the issue may become more significant. As stated in the Secretariat's paper and illustrated in Colombia's paper (WT/CTE/W/76-G/TBT/W/60), environmental requirements had a disproportionately high impact on developing and least-developed countries and small and medium sized enterprises (SMEs). Canada had expressed concerns at the CTE's 26-27 October 1998 meeting on how certification was being applied and recalled the conclusions of the Intergovernmental Panel on Forests (IPF) that countries support the application of non-discrimination, openness, transparency and sustainable forest management principles on certification so that these schemes would not become unjustified trade barriers or negatively impact on sustainable forest management. For certification to be effective, schemes must be responsive to internationally and nationally agreed processes on principles of sustainable forest management, such as criteria and indicators and national forest policies.

11. Canada welcomed Brazil's paper, particularly the description of the ABNT/CERFLOR forest certification scheme, which reflected IPF principles. The IPF had also suggested that comparability of schemes be promoted and duplication avoided. Canada would promote discussion on equivalency for certification in the TBT Committee. A priority for Canada at the WTO was to ensure that trade rules responded to business needs; life cycle considerations were currently used domestically to manage environmental impacts and non-product-related process and production methods (PPMs) were already the basis for voluntary eco-labelling and certification. Canada's focus on these issues reflected the concerns of companies in many sectors as illustrated by discussions on forest products,

textiles and cut flowers. It was necessary to review how WTO rules should be strengthened to take into account these developments.

12. The representative of Japan said that developed countries were establishing environmental standards which could pose burdens on developing countries. Although to produce environmentally friendly goods it was necessary to establish certain standards, including production methods. Developed countries should provide information and technical assistance to developing countries.

13. The representative of India said that WT/CTE/W/101-G/TBT/W/103 set out that environmental requirements were acting as market access barriers in certain cases, particularly for SME's, and that the issue of PPMs could not be addressed in a transboundary manner. Environmental requirements of a particular region should be addressed in that region. Capacity building and information were necessary to enable developing countries to maintain and increase market access. Although the paper referred to a study which suggested that there was no existing empirical evidence on environmental requirements having widespread market access effects, reference had been made in the CTE to specific barriers, such as for Colombian cut flowers. NGOs in WTO Symposia had noted problems faced due to environmental requirements in developed country markets, particularly for SMEs. Studies were being undertaken in India to collect evidence to present to the CTE. India felt that environmental requirements, whether voluntary or mandatory, should not impede market access for developing countries, that PPMs should be dealt with by national environmental policies, and that a package of measures was required to enable developing countries to increase market access.

14. India thanked Brazil for its paper; the voluntary nature of such certification schemes, particularly those which involved PPMs, was relevant. On Norway's proposal to develop rules on voluntary eco-labelling, there was general agreement in the CTE that if possible voluntary schemes should not impede market access. To this end, the type of eco-labelling scheme referred to by Norway would need to be examined from the point of view of life cycle analysis, as noted by Canada. A distinction should be made between environmental needs which should be addressed at the local level through appropriate national environmental policies and those which should be addressed at the multilateral level. There also should be an examination of the transparency of the development of eco-labelling, and the extent to which developing country concerns were taken into account. This applied to voluntary schemes developed at the national level based on consumer choice and those developed in international intergovernmental standards setting organizations. The effectiveness of the environmental requirements which emerged from these standards should be assessed on the basis of the extent to which the needs of all stakeholders were taken into account during their development.

15. The representative of the United States said that while it was recognized that standards had market effects on economic actors, including possible impacts on imports and domestic production, there were benefits, such as for human health, safety and the environment. For example, while there were benefits to the countries which maintained the standards, there may also be benefits for exporting country producers which met these standards, such as a cleaner domestic environment, a safer domestic food supply, technology transfer and greater marketability of products in third markets. Although the UNCTAD and ESCAP studies showed that developed country standards had not been a significant impediment to market access of developing country exports, the issues raised in WT/CTE/W/101-G/TBT/W/103 on potential impacts were important. As such, the US emphasized the importance of the TBT Agreement, which suggested that the way to proceed was in a transparent, open and non-discriminatory manner to achieve legitimate objectives.

16. The US endorsed the five principles underlying Brazil's forest certification programme. The challenge to Brazil was to ensure the credibility of such programmes. A crucial factor in determining the credibility of certification was whether all stakeholders could participate in its development. The US would welcome hearing from Brazil as to how participation was pursued as its scheme developed. The US asked which criteria and indicators would be used in the forestry sector; whether they would be measured at the national level or at the level of the individual stand of trees; how the performance

indicators would be quantified so that the scheme would lead to measurable improvements in the environmental quality of the industrial process; and what entities, governmental or private sector, self-certification or third party, would certify. The US commended Brazil for undertaking the challenge of implementing an environmental certification programme and looked forward to hearing more once it had become operational. The US also looked forward to Canada's views on how trade rules should be strengthened on eco-labelling.

17. The representative of New Zealand, commenting on WT/CTE/W/101-G/TBT/W/103, said that there was a tendency in the WTO to assume that market access barriers were created by mandatory technical regulations. Paragraph 10 highlighted this issue in stating that technical requirements can have an adverse trade impact when products were over-regulated, or when incompatible requirements were set for the same products by different countries. As noted by India, voluntary standards can impede market access. Problems created in this regard should be examined. Members' contributions highlighted some problems with voluntary instruments, for example from Colombia on cut flowers and Canada on forestry. The way to progress was through the development of a policy on equivalency of standards, which would facilitate trade and avoid the difficulties that the often arbitrary requirements of national standards had on exporters. New Zealand looked forward to Members' views on its paper to the TBT Committee (G/TBT/W/88) and was encouraged that others saw merit in developing the idea of equivalency. Further work in this area would be useful.

18. The representative of Hong Kong, China said that while the studies cited in WT/CTE/W/101-G/TBT/W/103 had not revealed evidence that environmental measures in developed countries had a significant impact on the market access of developing and least-developed country exports, they demonstrated that developing country exports may be undermined. In devising environmental policies, WTO Members should consider possible market access impacts, particularly for developing and least-developed countries. On standardization, the literature review set out that developing countries tended to be standard-takers rather than standard-setters and international standards were frequently skewed towards developed country interests. Developing country participation in international standardization was inadequate; the development of ISO 14000 was a case in point. There were many barriers limiting developing country participation in standards setting and enhanced technical assistance was only part of the solution. Without the full and effective participation of developing countries, international standardization was not meaningful. Paragraph 23 noted that India had experienced difficulties in phasing out AZO dyes in its textile sector pursuant to a new German regulation. Hong Kong, China recalled that its textile and clothing industry had expressed similar concerns when the German regulation was introduced. His delegation would continue to monitor developments in this regard, particularly the proposal of an EU-wide prohibition.

19. The representative of Malaysia, on behalf of ASEAN, requested an up-date from the EC on the draft legislation of the Netherlands for mandatory labelling of wood products.

20. The representative of the European Communities said that WT/CTE/W/101-G/TBT/W/103 should be viewed in a broader context. Although the CTE had been mandated to examine the environmental aspects of trade, environmental standards were not different from other standards. The costs which developing countries faced in complying with another country's standards were similar in terms of their causes to the costs faced by firms in the country which set the standard and by firms in developed countries other than the country setting the standard. It would be useful to identify if concerns were specific to the environment and if the environmental objective of certain standards created problems different to those created by standards making and compliance generally, to which the TBT Agreement responded. The conclusion in the current literature, although some delegations had further evidence, was that standards setting need not create market access barriers depending on the way in which standards were developed and implemented. This conclusion would likely be reinforced in time. The concept of proportionality was crucial with respect to mandatory standards; there may be a higher, but not necessarily disproportionate impact on developing countries and SMEs.

There was a need to strike a balance between the costs and benefits of a standard. As India had noted, all stakeholders should be involved in the development of standards.

21. Aspects of environmental standards setting, such as PPMs, may not be easily dealt with in a transboundary manner, but there may be transboundary opportunities. One of the issues raised by Brazil's paper was that presumably the industry which had produced the life cycle analysis-based standard would want to receive benefits from the fact that it was working to this standard domestically and in its export markets. To receive benefits, the standard needed to be recognized among potential consumers and its value understood. The relationship between the standard and ISO work was crucial. The EC would welcome the inclusion of life cycle analysis in such a standard. The EC asked how Brazil had involved foreign stakeholders to gain international validation of this initiative. Adherence to the international standards setting process would minimize regulatory divergence and trade problems in the area of eco-labelling. It would be useful if ISO would up-date the CTE on its work. Technical assistance and capacity building was crucial. It was also relevant to the upcoming High Level Symposia in March. As noted by Hong Kong, China, there was a problem with technical assistance. UNCTAD was undertaking work in this area and some MEAs provided for technical assistance in their fields. Equivalence was the most ambitious way in which to resolve problems on standards and certification. Based on the EC's experience, it was easier to envisage equivalence in a product where the implications of putting the product on the market were the same in different countries. Equivalence in environmental areas where life cycle analysis was applied to different eco-systems was more complex. In response to ASEAN's request, the EC said that the draft regulation on wood products was still in the Upper House of the Netherlands.

22. The representative of Uruguay said that to up-date WT/CTE/W/101-G/TBT/W/103, Members should contribute their national experiences, such as Colombia had done in WT/CTE/W/76-G/TBT/W/60. Uruguay was interested in the linkage between the CTE and the TBT Committee on eco-labelling. Members should be assisted to prepare TBT notifications of environment-related regulations. Increased awareness of technical regulations would lessen their trade impact.

23. The representative of Korea said that although eco-labelling may act as a non-tariff barrier to trade if not well designed, well-designed eco-labels can be effective instruments of environmental policy. Korea shared India's comment that compliance costs and lack of capacity of developing country industry, particularly SMEs, should be taken into account in designing eco-labelling criteria. Multilaterally-agreed guidelines on eco-labelling should become the basis for their development. Korea welcomed the new ISO eco-labelling standards, which would provide general principles based on which each country could implement the relevant standards considering its environmental situation. Korea requested that the Secretariat's paper of the TBT Committee's December 1998 Information Session with international standards setting bodies also be circulated in the CTE.

24. The representative of Colombia recalled her delegation's paper (WT/CTE/W/76-G/TBT/W/60) illustrated the effects of eco-labelling on its flower sector. Although the studies reviewed in WT/CTE/W/101-G/TBT/W/103 had not quantified such market access concerns, these concerns existed, as set out in Colombia's paper. The CTE would benefit from empirical evidence of sectors in which market access barriers had occurred. She asked how many developing countries participated in ISO and how standards were adopted.

25. The representative of Argentina said that WT/CTE/W/101-G/TBT/W/103 suggested that to date eco-labelling had not presented significant market access problems, particularly for developing countries. An Argentinian study had reached similar conclusions. Argentinian industry faced problems linked to compliance with national legislation, which imposed costs which were difficult to meet, particularly for SMEs. Although there was not a serious market access problem at this stage, did not mean this subject did not deserve attention. Eco-labels were one way to differentiate products which could affect prices and market access. To avoid that eco-labels became non-tariff barriers to trade, the CTE should examine when it was legitimate to use environmental considerations to

differentiate between products. Argentina suggested that a check-list of steps should be drawn up to ensure that the use of eco-labels was not discriminatory; this check-list should have three elements: *ex ante* transparency during the development of eco-labels, including the participation of all stakeholders; equivalency of standards; and special and differentiated treatment for developing countries. In addition to technical assistance, developing countries should be given longer periods to phase-in standards in order to adapt to emerging environmental requirements.

26. The representative of Egypt felt that although some eco-labelling studies illustrated that developing countries had not been significantly affected by environmental requirements, these requirements represented 5 to 20 per cent of additional costs. This placed a burden on developing country exporters, particularly SMEs. An ITC workshop on eco-labelling and other environmental quality requirements for textiles and clothing exports from developing countries had concluded that some of the problems faced by developing countries resulted from the multiplicity of eco-labels. It was important to: (a) allow developing countries to participate in standards setting to ensure their interests were taken into account; (b) provide developing countries with technical assistance to improve environmental performance; and (c) increase harmonization and mutual recognition of eco-labels while ensuring that one country's standards were not imposed on another to obtain recognition.

27. The representative of Brazil thanked Members for their comments on her delegation's paper. Although, Brazil's programmes were still in a preliminary phase, her delegation's experts would be pleased to discuss the questions raised as the criteria were further developed.

28. The observer of the International Organization for Standardization (ISO) commented on progress in ISO on Environmental Management Systems (EMS) standardization. Delegations appointed by National Standards Bodies from 55 countries participated in the ISO Technical Committee 207 on EMS; 16 countries were observers and other members had chosen to comment only on final documents. Participation in ISO was determined by Members. As noted at a recent UNCTAD workshop, developing countries felt that standardization was useful. The two basic documents for EMS, ISO 14001 and ISO 14004, published in 1996, were being revised to increase their compatibility with Quality Management System standards, ISO 9001 and 9004. Following the EC's request, ISO would provide information to the CTE on ISO standards. On ISO/TC 207 work on eco-labels, the definition of Type I labelling had been finalized on 11 February 1999, whereas the definitions of Type II and Type III were still being finalized. In 1998, ISO had published *Development Manual 10: Environmental Management*, which introduced ISO 14000 and the EMS, and set out how these standards related to developing countries. ISO thanked the ITC for helping to distribute this manual. On Colombia's questions, at least half of the 55 participating countries in ISO were developing; ISO decisions were taken by consensus.

29. The observer of the International Trade Centre (ITC) referred to the upcoming ITC/ESCAP regional workshop for Asia on textiles and garments where presentations would be made on the practical effects of eco-labels on exports. The workshop's report would be made available to the CTE.

30. The Chairman said that the discussion on eco-labelling had been useful and had referred extensively to the impact of eco-labelling on developing countries. The discussion had raised the issue of how eco-labelling was different from other forms of labelling in terms of the criteria and standards set. It had been suggested that a check-list be drawn up in order to address this issue.

Item 4 The provisions of the multilateral trading system with respect to the transparency of trade measures used for environmental purposes and environmental measures and requirements which have significant trade effects

31. The CTE agreed on the Interim Review of the Glossary of Search Words in WT/CTE/W/102, which will be used in the preparation of the Environmental Database for 1998.

Item 6 The effect of environmental measures on market access, especially in relation to developing countries, in particular to the least developed among them, and environmental benefits of removing trade restrictions and distortions

General comments

32. The representative of Australia presented his delegation's paper (WT/CTE/W/105), which developed the themes set out in Australia's 1996 paper (WT/CTE/W/36) and pointed the way to trade reforms which should be put to the 3rd Ministerial Conference. This paper complemented WT/CTE/W/106 on agricultural export subsidies, which Australia had joined with others in tabling. The possibility of "win-win" outcomes had frequently been discussed in relation to the potential of trade liberalization and consequent economic and environmental reform. Several Members had gone further and pointed to the potential for "win-win-win" outcomes, which recognized that reform also had consequences for development and social equity. Awareness of these linkages will be important in light of the High Level Symposia in March 1999. The potential for "win-win-win" reforms in this area was highlighted in the paper with reference to the magnitude of subsidization. Estimates of the subsidies to five key sectors, energy, transport, water, agriculture and fisheries ranged from over US\$ 870 billion to US\$ 1,000 billion. Many support policies were ineffective or inefficient, accelerated the depletion of natural resources and environmental degradation, had a regressive effect on income distribution, and dampened technological innovation. This suggested that there must be scope for reform which would provide extensive economic, trade, environmental and equity benefits.

33. Australia's paper focused on agriculture and fisheries as these sector had high levels of market distortion, including through high subsidization, and the environmental impacts associated with their production were of interest. This was not surprising given their importance as sources of income, providers of employment and as an essential basis for life, particularly to developing countries. The potential of "win-win-win" outcomes was of importance to WTO Members. Australia's paper also identified a range of other sectors where tariff peaks and tariff escalation were significant problems and which should be a priority for trade reform. These recommendations were the best way to achieve the "win-win-win" results that the international community had signalled was the end point of policy reform. As the CTE should prioritise trade reforms under Item 6, Australia proposed that the recommendations in its paper form part of the recommendations for the 3rd Ministerial Conference.

34. The representative of Zimbabwe said that his delegation had hosted the WTO Regional Seminar on Trade and Environment for Sub-Saharan Africa for officials from the Ministries of Industry and Commerce, and the Environment from 8-10 February 1999. This event will prepare Africa for more active CTE participation. Zimbabwe had circulated the statement of its Minister of Mines, Environment and Tourism at that seminar (WT/CTE/W/110) to put on record Africa's concerns. The biggest challenge that the continent faced was to strike a balance between trade liberalization, environmental protection and poverty alleviation. African governments had adopted structural economic reforms at great social cost which emphasized the pursuit of export-led growth to facilitate their integration into the global economic system. Yet, these reforms, carried out at the behest of multilateral financial institutions with the support of Africa's development partners, can only achieve the desired results if they were buttressed by enhanced market access for African exports.

35. Africa was concerned about trade distorting measures such as tariff peaks and tariff escalation, export subsidies and other unilateral measures that targeted products of export interest to developing countries. Such measures contradicted: (a) prescriptions for African economic recovery and integration into the multilateral trading system; (b) the adoption of appropriate policy instruments for sustainable development; (c) the diversification of African exports and realization of its comparative advantage; and (d) the essence of the WTO which was to enhance trade liberalization. This was an area which called for policy coherence between the WTO and the Bretton Woods institutions; the CTE should not shy away from this challenge. Zimbabwe recalled that the 1992 UNCED had recognized that "an open, equitable and non-discriminatory multilateral trading system

has a key contribution to make to national and international efforts to better protect and conserve environmental resources and promote sustainable development".

36. The representative of Turkey said that the relationship between trade liberalization and the environment was complex. The sectoral approach had been useful in exploring the ways in which trade and environment can be mutually supportive and had avoided cross sectoral and simplistic conclusions. Secretariat papers and contributions by Members on several sectors had established a framework for discussion. As removing trade restrictions and distortions did not automatically lead to environmental improvements, the sectoral analysis should be carried out in a balanced manner to capture the positive and negative environmental effects. A comprehensive analysis could be achieved by examining the conditions in each sector, which may vary depending on economic, social and natural conditions. Non-trade concerns may also differ between countries, for example, economic, social and political conditions for agricultural support and the environmental effects of its removal were not the same for developed and developing countries. The CTE should expand the sectors examined and include horizontal and vertical divergences.

37. The representation of the European Communities welcomed Zimbabwe's contribution, which pointed to the value of the WTO Regional Seminars on trade and environment and other areas of WTO policy-making. The EC hoped that the regional seminars would pave the way for participation from trade and environment officials at the WTO High Level Symposia in March 1999. The EC noted the tension referred to in paragraph 4 of Zimbabwe's paper on the legitimacy of national environmental, health and safety goals and the concerns expressed, particularly by developing countries, that these goals will be misrepresented and used as an excuse for protectionism. It was difficult to distinguish between problems created for trading partners by legitimate domestic policies and those created deliberately on the alleged basis of domestic legislative policies. This tension had emerged in the discussion on eco-labelling. The EC regarded the concerns expressed by Zimbabwe as key to moving the trade and environment debate forward. This year represented a window of opportunity to build confidence among WTO Members with respect to clarifying the ways in which legitimate goals in this field should be pursued without exacerbating the concerns over covert protectionism. It was in this spirit that the EC was preparing for the 3rd Ministerial Conference.

38. The EC welcomed the holistic approach in Australia's paper. The key implication which the EC drew from this analysis was that there were not any black and white solutions. National policies should be conscious of the positive and negative effects on market access of changes in the WTO's remit. Agricultural multifunctionality illustrated how a change in trade policy can have positive and negative effects depending on the perspective. If the net long term environmental impact of trade liberalization were uncertain, and as noted by Australia, were dependent on flanking measures, there should be an analysis of these flanking measures. This explained why the EC was undertaking a broad impact assessment in the preparation of the next phase of WTO liberalization so as to ensure that the full benefits of trade liberalization, which were not automatic, can be captured. This broader context on which to base liberalization would necessarily be a national political, social and environmental one; as such, the EC was sceptical as to the CTE's scope to set priorities as between economic tools and sectors that should be examined in the next round. Addressing the issues, even if it were not possible to arrive at a list of priorities, was precisely the CTE's work.

39. The representative of Switzerland said that the sectoral discussion of environmental issues had merit. However, it raised several difficulties. There were complex and often hidden causalities between multiple and distant causes and effects and it was difficult, if not impossible, to establish the direct sources of positive and negative environmental effects. It was imperative not to limit the discussion too narrowly to single sectors, but to maintain a broader and multi-sectoral approach taking into account the causes and effects which transgressed the borders of single sectors. He agreed with the EC that the CTE should have a balanced, holistic approach to discussions under this Item.

40. The representative of India said his delegation was interested in Part VI of Australia's paper, which focused on the benefits of examining the linkages between poverty and environmental degradation. Increasing market access of developing countries would provide them with the necessary resources to use towards appropriate domestic environmental policies. The CTE should examine ways in which to increase market access. As for Item 3, there were emerging environmental requirements which should be addressed on a horizontal basis, particularly those which may erode market access for developing countries. These requirements can be examined in the context of existing disciplines, such as the TBT and SPS Agreements. A package of measures also may be necessary to ensure that existing levels were not eroded, and market access was increased.

41. The representative of Argentina supported Australia's paper, which suggested that the WTO's major contribution was not to identify new trade barriers which were acceptable to protect the environment, as suggested in some papers, but to identify and eliminate existing trade barriers which led to environmental and developmental problems. The advantages of eliminating these trade barriers for the environment and development rested on the contribution of trade liberalization to better resource allocation. Economic and environmental efficiency can go hand-in-hand. Australia's paper stressed the development dimension, recognizing the link between poverty and the environment; the more economic resources developing countries had to devote to poverty alleviation, the greater the WTO's contribution would be to environmental protection. Although trade measures may eventually be necessary to protect the environment in certain cases, these measures were an exception to WTO provisions, which had been put in place to promote trade liberalization, not trade restriction. As identified by Australia, the WTO's primary contribution to environmental protection should be to identify existing trade barriers which should be removed to protect the environment.

42. The representative of the United States supported Australia's paper and said that subsidy removal would greatly affect land-use practices. Environmental impacts could be positive or negative depending on national infrastructure. The US welcomed Australia's recommendation that future WTO negotiations should prioritise trade reforms that directly or indirectly facilitated improved environmental outcomes, such as the reduction and elimination of support measures which adversely affected sustainable development. The US agreed with Australia on the inefficiency of coupled support payments for agricultural production which stimulated high levels of resource use and promoted inefficient production processes that generated high levels of pollution and waste. While the US also believed that targeted agricultural policies were the best method to ensure the implementation of improved environmental practices, there was a distinction to be drawn between generic coupled support and conservation programmes which, while using a direct payment mechanism delivered *bona fide* environmental amenities. The US supported Australia's point that expanded market access for processed products would result through a reduction in tariff peaks and tariff escalation. The negative impact of high nominal tariff rates on trade in finished products was supported by economic theory and empirical research. Tariff reduction would allow developing countries to actively participate in the expanding trade in value-added products. The US appreciated Zimbabwe's contribution and welcomed the greater participation of developing countries in the CTE, in the preparation of the 3rd Ministerial Conference, and in the High Level Symposia in March 1999.

43. The representative of Hong Kong, China said that Australia's paper highlighted issues to be included in a positive agenda for trade reform given their contribution to sustainable development. While her delegation's trade interest in the agriculture and fisheries sectors was limited, Hong Kong, China supported initiatives which would remove trade restrictions and distortions. Australia's paper listed six sectors where high tariffs or high levels of tariff escalation would remain even with the implementation of the Uruguay Round, including textiles and clothing. Reducing these restrictions can benefit the environment indirectly through enhancing market access opportunities. Resources can be used more efficiently and effectively if comparative advantage among countries was permitted. As suggested in Australia's paper, trade-supported growth can be an important source of income to finance environmental improvements, particularly in LDCs.

44. The representative of New Zealand welcomed Zimbabwe's statement which raised several concerns about how the environment in developing countries was detrimentally affected by trade distorting policies and how development options were thus inhibited. New Zealand agreed that trade liberalization can result in "win-win-win" outcomes, which would benefit the trading system and contribute to achieving environmental and development objectives. New Zealand was interested in Section III of Australia's paper, which examined the environmental impact of tariff peaks and tariff escalation. There may be significant indirect benefits when countries were able to maximize their comparative advantage. Through a more efficient use of resources and increased export earnings, economies could contribute to sustainable development and poverty alleviation. The CTE should pursue practical ways in which to advance work on how the removal of trade distorting policies can benefit the environment, such as export subsidies.

45. The representative of Canada welcomed Zimbabwe's paper and the inclusion of the development dimension in Australia's paper. The CTE should draw conclusions on the environmental benefits of removing trade distortions.

46. The representative of Japan said that there were obstacles to achieving "win-win-win" outcomes. At this stage, Japan preferred a practical approach and supported Turkey's comments in this respect. As the preparation of the 3rd Ministerial Conference was underway in the General Council, the CTE should avoid duplication of work.

47. The representative of the European Communities referred to Argentina's preference for initiatives which would reduce trade barriers and improve environmental protection as a general principle over measures which may create trade barriers to environmental protection. What may look like an increase in a barrier, could lead to increased market access and environmental protection. The EC cited the example of the German ban imposed on carcinogenic Azo dyes. To begin with many countries had been concerned that a ban imposed on a certain product would create trade problems. In fact, trade problems had not arisen and, as a result of the German ban, similar bans had been put in place elsewhere for public health reasons on what was now recognized to be a dangerous substance more quickly than would have otherwise been the case. Thus, it was not easy to define in a general way what would be an increase in trade problems.

48. The representative of the Philippines, on behalf of ASEAN, said that Zimbabwe's contribution highlighted the concerns of developing countries. ASEAN shared many of the concerns in Australia's paper on trade distorting export subsidies, tariff escalation and tariff peaks and welcomed the inclusion of the development dimension in this debate.

49. The representative of Uganda welcomed Zimbabwe's contribution as it shed light on issues regarding trade and environment from the perspective of Sub-Saharan African countries. The WTO Regional Seminars would improve and add value to the CTE. Australia's paper underscored the problems posed by subsidies, tariff peaks and tariff escalation to exports of interest to developing and least-developed countries. The CTE should work towards improving this situation.

50. The representative of Morocco supported Zimbabwe and Australia's papers, particularly on the need to eliminate subsidies in agriculture and fisheries. The development dimension raised in Australia's paper was an important element in the discussions.

Sectoral analysis

Agriculture

51. The representative of Norway introduced his delegation's paper (WT/CTE/W/100), which identified the environmental benefits provided by Norway's agricultural sector. These benefits were mostly related to environmental public goods for which there were no functioning markets. Given the

fact that some negative environmental effects were, to a greater or lesser extent, related to agricultural activity in all countries, the paper analyzed if a correlation existed between the extent of environmental degradation from agricultural production and applied levels of agricultural support. The analysis was preliminary and was restricted by lack of data for several environmental indicators and a lack of comparative statistics. On the possible relationship between the level of agricultural support and environmental degradation from agricultural activities: (a) environmental degradation from the agricultural sector varied according to factors such as natural conditions; (b) a clear distinction had to be made between the quantity of input use and the qualitative environmental effect of such inputs; and (c) there did not appear to be a clear relationship between environmental degradation and the level of support in different countries. Norway's analysis did not indicate that the shift in production from high to low support countries, which would likely result from trade liberalization, would lead to an overall reduction in environmental degradation.

52. The representative of Uruguay introduced a paper (WT/CTE/W/106), which was cosponsored by Argentina, Australia, Brazil, Canada, Chile, Colombia, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, Thailand, the United States and Uruguay which set out that the CTE should analyse the environmental benefits of eliminating trade restrictions and distortions, particularly in the case of export subsidies. In the WTO, export subsidies were only permitted for agriculture and were explicitly linked to other policies which distorted markets. For this reason, the paper illustrated the negative impact of export subsidies on the possibilities of third countries, particularly developing countries, to promote sustainable development. A small group of countries, the global economic weight of which was considerably important, concentrated subsidies on agriculture exports. While these subsidies had been used at levels which were lower than those authorized by the WTO Agreement on Agriculture, their importance and the resulting market distortions were significant. Accumulating production reserves which were then dumped on the international market at negligible prices did not serve any environmental objective. Thus, eliminating export subsidies would make a significant contribution to environmental protection and should be a priority for the WTO.

53. The representative of Japan introduced his delegation's paper (WT/CTE/W/107) on the environmental effects of trade liberalization on agriculture, which had been presented as an informal paper at the CTE's 26-27 October 1998 meeting. Multifunctionality of agriculture, particularly the environmental aspects, had characteristics of joint production, whereby appropriate production had to be maintained to enhance the environmental benefits of agriculture. Multifunctionality of agriculture was country specific, in accordance with each country's natural and social conditions; appropriate policies for multifunctionality would vary based on these conditions.

54. The representative of Brazil introduced her delegation's paper (WT/CTE/W/109), which reinforced the concept highlighted by Argentina and Australia in the general discussion that distortions in international agricultural trade had a negative environmental effect. These distortions also negatively affected the exports of countries which offered low levels of support for agricultural production. Brazil emphasized that the multifunctional character of agriculture, an issue on the agenda of the WTO Agriculture Committee, must not be used to justify the use of agricultural subsidies. On the contrary, it was the non-trade elements of agriculture which justified agricultural trade liberalization as a tool to promote sustainable development as set out in *Agenda 21*. The paper illustrated the close connection between trade liberalization and environmental protection as the former depended to a great extent on higher revenues provided by market access to incorporate environmentally sound production technologies.

55. The representative of Korea welcomed the contributions from Members on this sector. Korea appreciated that Australia's paper highlighted the development dimension; however, stages of economic development, industrial structures and policy priorities were not homogeneous amongst developing countries. Without regard to distinct social, historical and cultural situations, it could not be assumed that liberalization would have positive environmental effects. Korea shared many concerns raised in Japan's paper (WT/CTE/W/107). Like Japan, Korea belonged to the Asian

Monsoon climate zone. Out of the total arable land available rice paddies accounted for about 60 per cent, most of which were located between steep mountains. As 50-60 per cent of rainfall took place in the summer, irrigation and flood control was a high priority in Korea. Paddy fields were organized so as to retain a large quantity of water by keeping rainfall on the surface as well as to contain floods and prevent soil erosion and landslides. A recent study by a Korean Institute estimated that the volume of water retention of paddy fields per hectare was over 18 times the reservoir capacity of the Chun Cheon Dam, one of Korea's largest. The value of flood control provided by Korean rice paddies was over US\$ 10 billion, far exceeding the value of total rice production. Japan's analysis on this point reflected the realities in Korea. Hydro-electric dams, for example, could substitute the positive effects of paddy fields, but they also altered the climate and eco-systems, and destroyed the habitat of indigenous species and biodiversity.

56. Farmlands acted as buffer zones against the intrusion of residential and industrial development into rural areas. Abandoned agricultural areas resulting from trade liberalization were likely to be converted into less environmentally friendly areas, such as residential or industrial zones. The CTE should not overlook the relationship between increasing migration from rural to urban areas due to decreased agricultural activities. Korea emphasized that a more balanced and integrated approach was needed when analyzing the aggregate environmental effects of agricultural trade liberalization. The CTE should consider the OECD's agri-environmental indicators, which would facilitate a statistical analysis of the effects of agriculture on landscape, wildlife habitats and associated social factors. The CTE also should not overlook the effects of the current economic turmoil in countries like Korea for agricultural liberalization. At least in the short to medium term, it could be assumed that expedited agricultural liberalization would exacerbate social problems as any possible dislocation in this sector would have adverse effects on Korea's social fabric.

57. Regarding Norway's paper (WT/CTE/W/100), Korea agreed that valuation of public goods was essential to analyse the environmental effects of agriculture. Korea also agreed with the global approach in Norway's paper, which found that high support countries' pesticide restrictions were more stringent and enforcement capacity more developed. Norway had proven that high support countries had generally reduced nitrogen and phosphate fertilizer use in comparison with low support countries and that agricultural expansion, most probably in low support countries, as a result of trade liberalization, might have a negative impact on biodiversity. Higher environmental protection was not necessarily linked to low agricultural support.

58. The representative of the Philippines, on behalf of Indonesia, Malaysia, Thailand and the Philippines, joined others in submitting WT/CTE/W/106 which clarified the trade distorting effects of agricultural export subsidies. Economic and environmental benefits of trade liberalization would only be cemented if market forces reflected the true costs of production. At present, this was not the case for agriculture. The lowering of agricultural commodity prices in the world market as a result of surpluses from the use of export subsidies had been transmitted to developing countries in several ways, including through the closure of the markets of subsidized countries and through making competition in third markets more difficult. Perhaps the worst situation was when products from non-subsidized producers had to compete with subsidized products in the domestic market. Export subsidies in high support countries served to force developed countries to intensify their extractive production, which had a greater environmental impact. Thus, the adverse environmental impact of the practices encouraged by trade distortions affected efficient, non-subsidizing developing country producers. *Agenda 21* recognized that an open, equitable, secure, non-discriminating and predictable multilateral trading system was a benefit to all trading partners. Subscribing to this idea, many developing countries had liberalized agricultural trade, and anchored their agricultural policies on the basis of comparative advantage, notwithstanding the structural imbalances in this sector between developed and developing countries. If these imbalances were not eliminated, but exacerbated by the continued use of export subsidies in developed countries, linking trade and environment would be to the detriment of poor countries. The CTE should address the call in WT/CTE/W/106 for the elimination of export subsidies to be a priority in future WTO negotiations.

59. The representative of Argentina said that Norway's paper (WT/CTE/W/100) shared similarities with the paper his delegation had contributed (WT/CTE/W/97). Argentina agreed with paragraph 1 of Norway's paper that market forces alone could not lead to optimal resource allocation if prices did not reflect private and social costs of production. Argentina's paper argued that in order to remedy market failures, policy failures that prevented prices from reflecting full private costs of production should be removed. This indispensable first step would enable environmental policies to build on this basis, adding the environmental costs and benefits that were otherwise externalised. Norway's paper argued that "a certain level of agricultural production is necessary to produce (some) positive environmental effects", such as outdoor recreational activities, landscape and biodiversity protection. Since Norway's geographic position may not be the most favourable for agricultural activities, the paper concluded that support policies were needed "including a certain level of support coupled to agricultural production". Argentina had very little to argue with this conclusion. The Agreement on Agriculture tolerated this "certain level of coupled support" if it did not exceed 5 per cent of the value of production for developed countries and 10 per cent in developing countries. What Argentina found inconsistent with this argument was that Norway was using export subsidies.

60. Although in 1997 developing countries had been striving to cope with the economic crisis that had depressed commodity prices, Norway had subsidized exports of bovine, swine, sheep, and lamb meat, as well as eggs, butter, cheese and processed agricultural products. Norway had dumped a total of 32,335.4 tonnes of subsidized agricultural exports on the international market in 1997. This practice should be tested against the statement in paragraph 1 of Norway's paper that only if prices reflected all costs of production could markets lead to optimal resource allocation. Was the use of export subsidies helping to get prices right? No. Was this necessary to protect Norway's environment? No. Was this necessary to provide for Norway's stated "certain level of agricultural production" that enabled Norwegian citizens to enjoy recreational activities? No. Was this helping developing countries to adopt the environmental policies necessary to protect their natural resources, prevent impoverished rural population from depleting forests for firewood or abandoning land to migrate to overcrowded cities? No. Norway should not use the environment to disguise protectionist practices. After three years of CTE discussions, Norway should know that there were areas in which the complexities of the relationship between trade and environment had impeded progress. Given the public frustration about the supposed lack of environmental sensitivity in the WTO, this subject presented an opportunity. The CTE should deliver a clear recommendation to the next agricultural negotiations: remove export subsidies for the sake of trade and the environment. Argentina proposed that the CTE should contribute this message to the preparation of the 3rd Ministerial Conference.

61. Paragraph 6 of Japan's paper (WT/CTE/W/107) referred to a "study" indicating that the annual monetary value of conservation by paddy fields amounted to over 4.6 trillion yen. Argentina had found identical figures in a publication from the Ministry of Agriculture, Forestry and Fisheries of Japan, which indicated that the most important positive externality from paddy fields was the "function of preventing floods" (this amounted to almost 2 trillion yen, compared with 4.6 trillion yen referred to in WT/CTE/W/107), however "paddy fields on flat and low ground are excluded from this calculation due to their low flood preventing function". Most of Japan's rice production took place in low lands. As paddy fields located in low lands had a "low flood preventing function", as stated in the Japanese study Argentina had quoted, it was not possible to justify production support subsidies on the grounds of this "multifunctional" cover.

62. In paragraph 23, Argentina did not see how Japan could argue (without figures) that: "[a]gricultural trade liberalization leads to a concentrated production in agricultural exporting countries". Agricultural trade was far from being liberalized and world production was highly concentrated in countries that had sufficient resources to boost artificially production and exportation. This was not the case of developing countries. When rich countries subsidized their production they accumulated enormous surpluses that were then dumped on the international market at unfair prices. This was what actually concentrated production and acted against self reliance of developing country producers, whether in Argentina or in any other developing country that may not have the same

comparative advantages in agriculture, but still had a rural population striving for a living. Argentina found some common ground with Japan's statements in paragraphs 26 and 28. Markets can only allocate resources optimally when prices reflected full costs of production, including environmental externalities. However, markets did not even reflect private production costs due to government interventions, such as price support and export subsidies. Argentina agreed with Japan's argument that governments had to intervene to offset the inability of markets to capture the value of some environmental externalities, but this in no case justified price distorting policies. Government intervention had to be targeted to the root of the environmental problem; therefore, price support or export subsidies could never be justified on these grounds.

63. The representative of New Zealand said that his delegation was a cosponsor of WT/CTE/W/106, which proposed that eliminating export subsidies would result in "win-win-win" benefits. In addition to the economic and trade arguments which favoured their removal, there were compelling environmental and developmental arguments. As noted in the paper, there were no environmental benefits associated with the provision of export subsidies. Such policies used substantial amounts of money which could otherwise be channelled to public priorities, including environmental protection. Export subsidies, mainly used by certain developed countries, impeded the ability of efficient producers in other parts of the world to pursue sustainable development. He asked how development assistance goals could be pursued by developed countries effectively when some of their trade policies undermined the developmental potential of aid recipients. New Zealand noted the concerns presented to the British House of Commons, and the statement of Maurice Strong, noting the contribution of eliminating subsidies to the implementation of *Agenda 21*. The empirical studies concluded that consumers and taxpayers would gain substantially more from subsidy removal than farmers would lose. The economic, social and environmental benefits of breaking the link between support payments and agricultural production were set out in the Earth Council's 1997 Report, *Subsidizing Unsustainable Development: undermining the earth with public funds*. Eliminating agricultural export subsidies must be a priority for the WTO in the forthcoming negotiations and the environmental benefits of their elimination should additionally encourage countries concerned about the environment to engage positively in this endeavour.

64. New Zealand agreed with one of the points in Norway's paper (WT/CTE/W/100) that the market alone cannot address all environmental problems. This was where the role of domestic environmental policies came into play. Focused and effective domestic resource management policies, which need not be trade distorting, should be adopted to maximize public goods. The Agriculture Agreement recognized Members' right to introduce Green Box policies without any limit for a range of concerns. New Zealand agreed with Argentina that the environment should not be used as an excuse to maintain trade distortions. Referring to Norway's suggestion that trade in agricultural goods can lead to the spread of disease, he noted that so can tourism but that this was not banned. Concerns in this regard were addressed in the SPS Agreement, the provisions of which, as confirmed by the Appellate Body, were based on sound science. New Zealand, like Norway, aimed to prevent the spread of diseases, particularly those which were not already present, however this could be achieved without unduly inhibiting trade by relying on the scientifically justified rules in the SPS Agreement. Thus, it was unclear to his delegation where Norway's paper was headed in relation to this area. While most of Norway's paper focused on its experience, it made general observations about other countries, including New Zealand. New Zealand agreed with Norway that its data should be treated with caution. In contrast to Table 2 of Norway's paper, the 1996 OECD Environmental Report set New Zealand's nitrogen use at 4.29 metric tonnes per km². The 1996 OECD Performance Review set New Zealand's level at 0.7 metric tonnes per km², i.e. one sixth of Norway's estimate.

65. The representative of Switzerland said that all the submissions by Members on this Item had advanced the CTE's discussions. To be adequately appreciated, papers should be submitted in sufficient time prior to the meeting. Switzerland noted with interest Norway's evidence which questioned claims that there was always a direct correlation between levels of agricultural support and environmental damage. Certain methods of production produced positive environmental externalities

for which there was no compensation and, without adequate government activity would result in market failure.

66. The representative of Australia welcomed the attempt in Norway's paper (WT/CTE/W/100) to collect relevant data. The paper itself pointed to the shortfalls in the data, particularly its small sample size and its basing of ratios for pesticide and fertiliser use on arable land, which was defined differently across countries. The exclusion of pastoral land was also likely to skew the results, particularly for countries like Australia and New Zealand where the proportion of farm land given over to pastoral activity was high. Despite these shortfalls, Australia saw some useful results coming from Norway's analysis, i.e. there was a notable correlation between the use of some key inputs which were associated with environmental impact and levels of support as measured by the Producer Subsidy Equivalent (PSE). The paper underlined the rates of change in recent years whereby high support countries had reduced the intensity of the use of some of these inputs per land area. Australia welcomed Norway's conclusion that changing policies in high support countries which had increased input-output price ratios and improved environment policies had been responsible for this. Australia advocated this rationale for continuing the reform of market distorting policies and complementary improvements in environmental policy. Australia noted a gap between the analysis in Norway's paper and its conclusions. If some agricultural activity had positive environmental effects which were not rewarded by the market, this did not justify the existence of those policy measures which primarily aimed at artificially raising agricultural production levels overall. This was because those same measures also resulted in negative environmental effects. Even if the assessment were based only on environmental grounds, it was inefficient. This assessment was compounded when the added costs of international economic inefficiency and social inequity were considered.

67. Australia supported the conclusions on Item 6 in paragraph 197 of the 1996 CTE Report (WT/CTE/1). Australia shared Norway's concern about threats to biodiversity. Agriculture had been an important factor in the loss of habitat and the spread of feral animals, the key threats to biodiversity. Yet, no one in Australia was advocating that agriculture should be cut back to meet this threat; it would be ineffective and economically disastrous. Protection and rehabilitation of habitat and direct control of feral animals had been partially successful in meeting this problem and was an example of the economic and environmental efficiency of targeted policies. This approach would be optimal in a high support country where movement back to an efficient level of production would free resources to rehabilitate habitat and foster species protection. Scaling back would also directly address some of the environmental problems identified in Norway's paper as correlated to support levels. Norway's paper raised several environmental problems external to the market and associated with agricultural production and trade, including soil erosion, transmission of pests and biodiversity loss. These problems should be addressed, but not by forgoing the benefits of a more efficient global distribution of agriculture. The point was that trade liberalization was not incompatible with, and can contribute to solving environmental problems in high and low support countries.

68. Australia commented on Japan's paper (WT/CTE/W/107), focusing on Section V which drew unwarranted conclusions on the likely environmental effects of agricultural liberalization based on prejudgements on the environmental conditions and productive responses to liberalization of different countries and their policy responses to liberalization. Japan's analysis went against the general view in the CTE, not just about the complexity of the linkages between agricultural trade, production and the environment, but about the interaction of these factors with environmental policymaking. This Section also confused the issue by claiming that trade liberalization will lead to "concentrated production in agricultural exporting countries"; it may lead to some increase in production in low support countries, but this had great potential to provide benefits, especially if these countries applied appropriate environmental policies. Reductions in the quantity of agricultural production in high support countries also had the potential to produce "win-win" outcomes in these countries and can be complemented by targeted environmental policies which could directly and more efficiently obtain the benefits that Japan associated with rice paddies.

69. Australia endorsed Brazil's views in WT/CTE/W/109 on the negative externalities associated with direct agricultural support, including intensive resource use and increased concentration of production and associated pollution. Australia agreed that targeted, mutually supportive trade and environmental policies, which achieved environmental benefits with lower costs in terms of associated negative externalities, were superior to those which generated significant negative effects, often with counter-productive results to the original policy intent with respect to the environment.

70. In signing on to WT/CTE/W106, Australia had been motivated by the view that it was time for the debate under Item 6 to progress to a more detailed analysis. The CTE had useful discussions on general issues related to the market access effects of environmental measures, as exemplified by WT/CTE/W/67. WTO treatment of export subsidies was such that they were prohibited except for agriculture. WT/CTE/W/106 highlighted the environmental consequences of export subsidies to agriculture. Since environment was closely tied to development, the paper also noted the impact of export subsidies in agriculture for the pursuit of sustainable development policies by developing countries. Export subsidies can have indirect environmental impacts through their implications for export opportunities of other countries. Subsidies can reduce trading opportunities for countries with efficient industries with low levels of support and, moreover, they can harm economic development in those countries and adversely affect their ability to adopt appropriate environmental and social policies. Although these impacts can be felt in all countries, their effects had a significant impact on the persistence of rural poverty in developing countries, particularly given that the rural poor comprised as much as 80 per cent of the poor in these countries. As illustrated in the paper, the accumulation of surplus stocks which were then dumped on international markets did not serve any environmental objective. Thus, improved environmental outcomes were another reason to eliminate export subsidies, a goal which the CTE should support in clear terms.

71. The representative of Canada recalled his delegation's support for Brazil's request for a Secretariat paper on agricultural subsidies. Given the CTE's role to discuss the environmental impact of agricultural subsidies, this work would not duplicate work in the Agriculture Committee. While Canada was disappointed that the CTE had not been able to reach agreement on this paper, it was pleased to be among the sponsors of WT/CTE/W/106. Canada believed that valid non-trade objectives, including environmental protection, should be addressed wherever possible by non-trade distorting measures. While not questioning the tradition of agriculture in certain countries, including Canada, in many countries, particularly developed countries, the type and intensity of agricultural production had shifted over the past thirty years. This shift could partly be attributed to the increased level of support for arable crops. Canada questioned the assumption that agricultural landscape was a higher public good or provided greater environmental protection than wild or natural landscape. Canada supported the central argument in Brazil's paper (WT/CTE/W/109) that non-trade concerns should not be used to justify trade distortions. To ensure that trade and environment were mutually supportive, trade liberalization should always be accompanied by sound environmental policies.

72. Canada agreed with Norway's paper (WT/CT/W/100) that market mechanisms may undervalue environmental services produced by agriculture and thus that these may be under-supplied relative to the social optimal. Norway's analysis on the relationship between trade liberalization and the environment was, by its own admission, not exhaustive and should not be used as a basis for a complete understanding of how trade may be used to affect environmental conditions. Regardless of the extent to which environmental goods were produced jointly with agricultural products, the case had not been made that production support was the most efficient way to ensure net agricultural benefits; adverse market distortions and trade effects would result from oversupply of commodities as well pollution and other forms of environmental degradation may increase as agricultural production intensified. In countries where the public paid producers for the positive environmental externalities of agriculture, this payment should be decoupled from production and linked directly to the desired benefit. If production intensity was reduced, this would lead to a lower level of environmental risk. The case that indirect instruments, such as production support, were more efficient than instruments targeted directly to the desired environmental benefit remained to be made.

If the retention of stone fences in agricultural landscape were desired, it would be more efficient to pay a farmer to maintain them than to subsidize the food the farmer produced.

73. The representative of Thailand, on behalf of ASEAN, commenting on Japan's paper (WT/CTE/W/107), said that agriculture played a crucial role in all countries. However, the concept of multifunctionality of agriculture should not be used as a justification for the maintenance of agricultural protection. Agricultural subsidies should be decoupled from domestic production and international trade. Given that Japan had stated that the value of multifunctionality, such as land conservation through paddy fields in Japan was over 4.6 trillion yen per year, which far exceeded the total output value of rice production, ASEAN asked what the primary objective of rice planting was in Japan. ASEAN shared Argentina's view that low land rice paddies cannot protect against flooding.

74. The representative of the United States said that her delegation was one of the cosponsors of WT/CTE/W/106, which called for agricultural export subsidies to be eliminated. The inefficiency and trade distorting impact of these subsidies had been well documented and the environmental problems which flowed from their use were obvious. The US agreed with Brazil's paper (WT/CTE/W/109) that trade liberalization did not automatically lead to environmental protection, but was a step in the right direction. Concerns over the externalities set out in Norway's paper (WT/CTE/W/100) were valid and were identified in Article 20 of the Agriculture Agreement. However, the methods Norway proposed to meet these concerns distorted trade and increased environmental degradation. The US was disappointed by Norway's insistence on the use of direct payments to agricultural producers coupled to production, which encouraged overproduction that could lead to trade distorting export subsidies and to more intensive input use in the agricultural production process. This increased environmental degradation. Effective policies should be targeted and limited in scope. For example, Norway's paper argued that agricultural activity can contribute to soil erosion and poor water quality. To address this production pattern, the US provided incentives to farmers and ranchers to adopt more environmentally friendly farming and to take highly eroded land out of production. The US noted an environmental benefit of trade liberalization, not noted in Norway's paper, was the almost complete elimination of government input subsidies for pesticides and fertilizers, for example in Hungary and Poland which were low PSE countries with comparable levels of pesticide reduction to Norway. Recognizing the importance of supporting rural sectors and the need to minimize trade distortions, the US supported the application of Green Box policies which had no trade impact or minimally distorted trade; their proper application was set out in Annex 2 of the Agriculture Agreement.

75. The US was dismayed by Japan's view in WT/CTE/W/107 that trade liberalization would disrupt Japan's rice production and limit the beneficial impact of rice paddies. Many countries had experience with programmes to conserve water and soil and to address agricultural multifunctionality in a way that only minimally distorted trade. As for Norway's paper, Annex 2 of the Agriculture Agreement described how countries could protect their environment through programmes that did not have a trade impact. As stated by Vice President Gore at the Davos Economic Forum, the US hoped that export subsidies would be eliminated in the next round of negotiations.

76. The representative of Japan welcomed Norway's paper (WT/CTE/W/107), which noted that agricultural landscape conservation and biodiversity preservation were public goods provided by agriculture. These comments were similar to Japan's arguments concerning the functions of flood control, landslide prevention and enrichment of water resources of agriculture as important factors of multifunctionality. Environmental impacts of agriculture were dependent on natural and social conditions of countries and, in many cases, appropriate management through farming activities was essential to maintain and enhance environmental benefits. Japan echoed Norway's view on the environmental impacts of changes in the transport of agricultural products resulting from trade liberalization. Further analysis on this issue was required. Japan noted the need for a long term assessment of the environmental impacts of agricultural production shifts caused by trade liberalization, including the effect of changes in land use in importing and exporting countries. Non-trade concerns should be appropriately reflected in the process of agricultural reform.

77. Japan appreciated Australia's paper (WT/CTE/W/105), which encompassed the possibility of measures to enhance the environmental benefits from agriculture. Japan was concerned that the paper did not properly address varying natural conditions, nor analyse sufficiently the long term environmental effects associated with production shifts. Japan was concerned about Australia's reference that removing distorting policies was generally more effective and believed that there were cases in which certain environmental measures should be used, regardless of their efficiency, if appropriate alternative measures were not available. The efficiency of the measure and how clearly it was targeted to a given objective should be discussed separately. Japan noted that new dimensions of the issue had arisen in the OECD's discussion of multifunctionality which suggested that discussion related to multifunctionality and trade distortions was not as simple as had been initially considered. In the Communique of the 1998 OECD Ministerial Meeting of the Agriculture Committee, Ministers had acknowledged that "there can be a role for policy where there is an absence of effective markets for such public goods, where all costs and benefits are not internalised." Japan felt that a certain degree of production linked domestic support was necessary to the extent that multifunctionality was jointly provided with appropriate agricultural production. The combination of policy measures including appropriate re-coupled support was crucial to maintain agricultural multifunctionality.

78. Japan appreciated that Brazil's national experience paper (WT/CTE/W/109) recognized the need to address agricultural multifunctionality and noted that the level of agricultural support was not relevant to the environmental performance of agriculture. The paper illustrated that Brazil was addressing conservation tillage or non-tillage in soya cultivation through environmentally sustainable agriculture. However, it was incorrect to argue that all agricultural subsidies were environmentally harmful; there were environmentally well-targeted subsidies, including those inducing crop rotation or conservation tillage. Japan stressed the importance of site-specificity of agricultural multifunctionality. On WT/CTE/W/106, Japan felt that the CTE should not focus only on the trade distortions caused by certain agricultural policies, such as export subsidies, but should consider the overall effects and objectives taking into account agricultural multifunctionality. Responding to several comments on rice paddy farming, Japan said that paddy fields in both low and high lands in Japan contributed to flood prevention.

79. The representative of India made preliminary comments on the four papers on agriculture. Norway's paper (WT/CTE/W/100) provided one insight into the issues under Item 6 and gave a good analysis of agricultural public goods. In countries like India, where three quarters of the population lived in rural areas and depended on agriculture, supportive domestic policy measures were necessary to ensure agricultural returns and poverty alleviation. The agricultural community in such countries could benefit from increased market access, which need not result in more intensive agricultural practices as there will be significant trade diversion in agricultural production in countries such as India. Another benefit will be the value-added on agricultural products created when marketed to developed countries, which would lead to increased resources for agri-producers, alleviation of poverty and installation of better domestic environmental policies as a result of the resources generated from increased exports. Value-added in India may not be more than ten per cent from the farmgate level, whereas in some developed countries it can be as high as fifteen times this figure.

80. Gaps currently existed in some developing countries, like India, between the performance and the potential of crop productivity; increased productivity of existing agricultural lands would be environmentally friendly in India. There was scope in India to expand agriculture to barren lands where environmentally degrading practices may not be necessary. In India, the net sown area was about 142 million hectares, while there was identified arable land available up to at least 24 million more hectares. Increased agricultural production would also create employment and render sustainable development more effective. In sum, environmental costs in the agricultural sector were lower in developing countries whether low or high support and trade liberalization in intensive agricultural practices in developed countries can produce a "win-win" situation. India felt that large arable lands, including barren lands in developing countries could lend themselves to organic farming and, thus, to better phytosanitary and public health standards. India supported Argentina's distinction

between the appropriate level of agricultural production and the harm that export subsidies could cause to global environmental objectives, including those of increasing developing countries' market access. A shift in production to developing countries with large agricultural lands should create environmental benefits, particularly given the increased resource availability, the value-added possibilities and the diversion of trade to more environmentally beneficial practices.

81. India supported the arguments in WT/CTE/W/106 on the need to eliminate agricultural export subsidies in developed countries, where internalisation of externalities would lead to greater market access for developing countries' agricultural products. India supported reducing export subsidies, but linked with issues of market access, quotas and tariffs. Poor resource-based, low per capita income and negative current account balances of some developing countries, such as India, may inhibit the opening of economies to imports, but this situation did not exist in many developed countries. Agricultural production processes were linked to domestic conditions, which varied among countries.

82. India felt that Japan's paper (WT/CTE/W/107) dealt with an environmental problem which can better be addressed through domestic environmental policies, not through trade distortions. WTO rules permitted countries to take measures, including subsidies, to comply with domestic environmental regulations. As noted by Canada and others, non-trade concerns should not impede trade liberalization. India noted Brazil's conclusions in WT/CTE/W/109 that agricultural subsidies had a negative effect on reducing rural poverty and that a shift to new production methods which took into account agronomic, social, economic and ecological aspects could be more conducive to sustainable development. An important point made by Brazil was that an increase in agricultural income was directly linked to the introduction of sustainable agricultural management systems. These income increases would enable, through appropriate domestic environmental policies, environmental protection and trade liberalization to be mutually supportive.

83. The representative of Bolivia referred to the concern expressed in WT/CTE/W/106 on the negative impact of agricultural subsidies on trade, agricultural investment and the environment, particularly given that Bolivia's main non-traditional exports were agricultural. The importance of environmental issues in Bolivia was illustrated by the fact that Bolivia had been among the first developing countries to set up a Ministry for Sustainable Development and Environment following *Agenda 21*. Bolivia welcomed WT/CTE/W/106 as it had supported Brazil's request for a Secretariat paper on export subsidies, which would not have duplicated work in other WTO Committees. Bolivia asked that all papers submitted to the CTE be translated to all official WTO languages promptly.

84. The representative of Norway said that trade reform should offer opportunities for "win-win" outcomes, which was a difficult and long term undertaking due to the complexities in the interface between trade liberalization and environment protection. In an overall evaluation, sector specific analysis was required as the linkages between trade and environment differed among sectors. However, sector specificity made it difficult to draw broad, cross-sectoral conclusions. Norway agreed with Australia's paper (WT/CTE/W/105) that some subsidies may be justified on efficiency or equity grounds to address market failures, reward positive externalities or meet social objectives, an aspect which was described in Norway's paper (WT/CTE/W/100). These benefits were mostly related to environmental public goods which had no functioning market and for which providers should be paid to achieve the desired resource allocation. In recognizing the need for targeting agricultural policy measures as far as possible to minimize trade distortions and avoid possible inconsistencies among measures, Norway cautioned against restricting the scope and flexibility of environmental policy measures. The possibilities for policy targeting and agricultural decoupling had been discussed at the OECD, although not for jointly supplied services. There was a growing awareness that complete decoupling from food production will not be possible in the presence of joint products. In practise, a close relationship existed between certain environmental objectives and the maintenance of a certain level of agricultural production. Thus, a combination of policy measures including a certain degree of coupled support was the most efficient way to achieve environmental objectives.

85. Norway agreed with Japan's paper (WT/CTE/W/107) that the relation between the environment and agricultural trade liberalization was complex. The role of paddy fields in food production, flood control, soil erosion prevention, and water storage was illustrative of the multifunctionality of rice production, which varied between countries and regions. Factors, including varying natural conditions and production methods, should be taken into account when considering appropriate measures to maintain and enhance the environmental benefits jointly produced with agriculture. In expanding the scope of the discussions, aspects of agricultural multifunctionality which provided environmental benefits should be emphasized.

86. Norway agreed with Brazil's paper (WT/CTE/W/109) that the multifunctional character of agriculture could pave the way to sustainable development. Brazil's conclusion that negative externalities could occur in high and low support countries supported Norway's findings. Brazil's paper highlighted trade liberalization and economic development as means to economic rehabilitation and sustainable development. Poverty should be addressed in future trade reforms. However, the linkages between trade liberalization, economic development, environmental benefits and sustainable resource use were more complex than suggested by Brazil. In response to Argentina, Norway's paper did not defend export subsidies as part of its long term strategy to safeguard the environmental benefits produced by multifunctional agriculture. On New Zealand's comment, Norway had obtained data from neutral sources. As stated in paragraph 45 of Norway's paper, the definition of arable land may vary between countries and permanent pasture had not been included. As recognized by biodiversity experts, the introduction of alien species was a concern linked to increased trade.

87. The representative of Mexico said that given that most of the papers had been submitted in English and were not yet available in Spanish, Mexico reserved the right to comment at a later stage. Mexico felt that Australia's paper (WT/CTE/W/105) traced out the path that the CTE should pursue. As Argentina had noted, the CTE's task was not to seek how to justify imposing new restrictions or distortions on trade, but to determine how the WTO could contribute to sustainable development. The paper on agricultural export subsidies (WT/CTE/W/106) was a good basis on which to discuss this issue. However, Mexico was not convinced that discussions on the elimination of export subsidies should necessarily be based on the argument that these subsidies harmed the environment, given that their elimination was desirable and necessary irrespective of the fact that there may be environmental reasons to eliminate them. There was an additional reason for eliminating agricultural export subsidies as illustrated by several papers which had been submitted in the CTE. The CTE should continue to discuss export subsidies in order to identify the synergies between trade and environment.

88. The representative of Hungary agreed with many of the critical remarks on Norway and Japan's papers. Paragraph 74 of Norway's paper (WT/CTE/W/100) dealt with the negative environmental effects related to transport which could increase when trade in agricultural goods was liberalized. Although this argument held for the process of liberalization of trade in industrial goods, Hungary was not aware of objections on these grounds. A differential treatment of trade liberalization in these two categories of goods was not justified. Although WT/CTE/W/106 raised valid points which would be relevant for the next round of agricultural negotiations, other measures which had similar negative environmental effects should have been included, such as export credits and certain export-related activities of state trading enterprises.

89. The representative of Malaysia, on behalf of ASEAN, supported the main points in Brazil's paper (WT/CTE/W/109) with respect to the multifunctionality of agriculture, the need to ensure sound environmental management, poverty eradication, and food security. Non-trade concerns could be addressed through agricultural trade liberalization. Liberalization in this sector would only enhance efficient resource use and decrease the environmental burden. Removing trade distortions, such as tariff escalation, would have a direct impact on addressing non-trade concerns, such as poverty. Agricultural trade liberalization coupled with sound domestic environmental management policies could lead to "win-win" situations for both exporters and importers. Pursuing agricultural protection under the guise of addressing non-trade concerns or environmental protection was an enigma to

ASEAN. Although Table 5 of Norway's paper (WT/CTE/W/100) showed that Malaysia and Thailand had a high percentage of annual deforestation, other sources showed that between 1980 and 1985 these countries had expanded tree plantations for oil palm and other crops to alleviate poverty and redress socio-economic concerns, as well as contribute to export-led growth. Table 5 showed that there were no forests to exploit in Norway and other countries compared with the virgin forests in ASEAN. Although the annual rate of deforestation appeared to be relatively high, the important fact was that ASEAN would ensure that forest exploitation was carried out in a sustainable manner.

90. The representative of Panama supported the concerns expressed on the need for environmental measures to be applied in a manner which was transparent, equitable and did not cause trade distortions. As pointed out by Zimbabwe, countries faced the challenge of creating a constructive relationship between trade and the environment which would benefit from an open, equitable, multilateral and non-discriminatory trading system. Panama asked when the CTE would focus its analytical work in preparation for the 3rd Ministerial Conference.

91. The representative of Egypt attached importance to the development dimension in Australia's paper (WT/CTE/W/105) and noted the case for net food importing developing countries, which none of the papers addressed. Egypt supported most of the arguments for eliminating agricultural subsidies given the possible environmental benefits of their elimination. However, the accumulation of agricultural surplus provided net food importing developing countries with a means to satisfy their food security with the little purchasing power they had and bearing in mind the inadequate implementation of the Decision on Net Food Importing Developing Countries.

92. The representative of Turkey saw a close relationship between agriculture and the environment, which was not predicable *a priori*. Whether agriculture affected the environment depended on production techniques, soil and water management, fertilizer and other chemical use, and government policies. The positive environmental effects of agriculture can be enhanced through appropriate agricultural and environmental policies. Turkey shared the view in the OECD 1998 Report that "environment measures in agriculture should be transparent, targeted to the objective, tailored to the environmental situation, and subject to regular monitoring and evaluation to ensure that they were effective and cost efficient and did not distort production and trade." Agricultural export subsidies may be environmentally harmful due to their distorting effects on market structure, production, prices and market access opportunities of non-subsidizing countries. Their removal would reduce over-production and result in a more efficient use of resources. The prices of goods should reflect the private cost of production and the environmental externalities at each stage of the production process to maintain sustainable production and resource management policies. Turkey felt that the CTE's findings should be taken into account in the upcoming agricultural negotiations.

93. The representative of the European Communities said that after such a rich debate it was not necessary to comment on the details of the papers. Also, many of the issues raised were being discussed in other fora with greater expertise in this area. The relationship between agricultural activity and environmental protection was a subject where the understanding of the global community had evolved rapidly in the past twenty years. When the Uruguay Round was launched, this concern had been less than prominent. By the end of the round, there had been some commitments to reduce support and protection which were firmly based on a recognition of the need to act to protect the environment. At the end of the Uruguay Round, the EC had recognized that environmental protection would be part of renewed negotiations. It was worth noting that existing commitments were being revisited to reduce domestic support, and increase market access and export competition, which encompassed export credits as well as export subsidies.

94. Discussion under Item 6 confirmed the fear that it may be easier to examine market access issues when all the economic tools which had an environmental impact had been put together. Focusing on one sector could lead to a false debate where it was tempting to argue that this was the only problem and that its elimination was a panacea for all the difficulties faced. This would not be

accurate. There was an elegant glissando of evidence from the proposition that reducing agricultural support would have an environmental impact which would need to be analysed by each country in a balanced way, to the proposition that there was one particular form of agricultural support which deserved attention. The countries which advanced the latter view were not necessarily those that indulged in that form of agricultural support. As the CTE assessed the environmental impact of agricultural activity, even low support countries and those that did not have export subsidies could have high rates of biodiversity loss, soil erosion and deforestation as a result of export oriented activities. It was difficult to be as black and white as some delegations would wish. There was evidence which reinforced the view that sustainability should be given greater weight in the upcoming negotiations in all sectors. If the evidence were overloaded, its usefulness would be undermined.

95. The representative of Australia recalled that the CTE's role was to focus on environmental issues. Although the EC had suggested that it was best to approach the issues more generally, in light of the CTE's work so far, a general approach had not facilitated progress. It was thus appropriate to move from the general, as at Singapore, to the more specific. As there were different effects of trade and environment policies on different countries, Australia's paper (WT/CTE/W/105) highlighted the impact particularly on developing countries and the inequities which arose for both trade and environment from distinctions between low and high agricultural support countries. These inequities did not lead to "win-win-win" outcomes. Issues which were worthy of attention under Item 6 were the elimination of agricultural export subsidies and fisheries subsidies, and the examination of tariff peaks and escalation. Net food importing countries had domestic producers which were affected by lower prices even if they were not exporting. Egypt's concerns in this regard appeared to relate to food security, an issue which was primarily about poverty. To the extent that export subsidies contributed to poverty, they could not ensure ongoing food security. Australia was a major supplier of wheat to Egypt presumably as this wheat was available at a fair price; Australia did not have any export subsidies. The CTE should examine aspects of Item 6, including those identified in Australia's paper, with a view to the 3rd Ministerial Conference.

96. The representative of Argentina said that, as Mexico had noted, the purpose of the WTO was to facilitate trade. Therefore, the CTE's contribution to the environment should be done through trade facilitation; an environmental pretext was not necessary to facilitate trade. The WTO can contribute to enhancing trade and the environment through identifying which existing trade barriers prevented or were detrimental to the implementation of appropriate environmental or development policies. Most Members were sensitive to the problems caused by export subsidies, which represented an example of a sector in which the WTO could contribute to trade and environment in the forthcoming negotiations. Argentina supported Brazil's paper and its focus on the relationship between poverty, development and environment. Discussion on non-trade concerns should not only be on protecting recreational areas, but on alleviating poverty, which was a legitimate non-trade concern.

97. The Chairman said that there were two broad views with respect to the environmental impact of trade liberalization. While delegations might wish to ponder as to where and how to go from here, it might be useful to consider whether it could be agreed that there were areas or sectors where trade liberalization had clear and agreed trade benefits.

Energy

98. The representative of Turkey said that another area of potential environmental impact was the energy sector, which had direct environmental effects on production, transportation, conservation and use, and indirect effects through its use in other sectors. Internalisation of environmental externalities in this sector was crucial to put in place environmentally sound policies. Fiscal incentives, taxes and charges should be restructured to promote such policies. Turkey appreciated efforts to develop alternative and renewable energy sources, which will reduce the effects on climate change and environmental degradation caused by polluting energy sources.

Fisheries

99. The representative of Iceland introduced his delegation's paper (WT/CTE/W/103 and Corr.1) on Iceland's fisheries management system. To attain ecological and economic efficiency, Iceland's fisheries management system rested on the three pillars of sustainable development: environmental, economic and social. Although the Icelandic fisheries management system was still under development, the results were in line with the general positive experience from the application of Individual Transferable Quotas in fisheries in other countries. There had been a decline in fishing efforts; the growth of the fishing fleet had stopped and in some cases contracted; fish stocks had recovered and the quality of landed catch had increased; profitability had increased; and total employment in the industry had not contracted significantly due to the emphasis on product quality. The success of Iceland's fisheries management system resulted from the fact that it was not only based on rigid ecological requirements with respect to science and catch levels, but on economic efficiency. The system was both market-driven and free from government subsidies. Yet it was difficult for any country to maintain sustainable fisheries management regime in a world market characterized by overcapacity. Such circumstances provided for constant pressure on the domestic fisheries sector and through it on the government to increase supply, notably by allowing more fishing, to the detriment of fish stocks and marine biodiversity. Overcapacity of the global fishing fleet was the predominant cause of the depletion of fish stocks in many regions. It was generally recognized that government subsidies and other market distortions were primary factors in causing this overcapacity. Thus, eliminating government subsidies and other trade distortions and restrictions would facilitate sustainable development in fisheries.

100. The representative of New Zealand said that Iceland's national experience paper provided a concrete example of the environmental benefits from sustainable management policies without resort to trade distorting measures, such as subsidies. New Zealand agreed with Iceland that such sustainable policies were difficult to maintain in the face of overcapacity in global fishing fleets. New Zealand also appreciated Australia's reference in WT/CTE/W/105 to recent studies undertaken on the environmental impact of fish subsidies. As empirical work in this area was undertaken, the pressing need to remove all trade distorting fish subsidies became increasingly apparent. New Zealand supported Iceland's comment that no single action could bring about such positive results towards achieving sustainable development in fisheries as would the elimination of subsidies. As for agricultural export subsidies, eliminating subsidies would result in significant environmental and economic benefits. In this International Year of Oceans, New Zealand called on those countries which used trade distorting subsidies to eliminate them. A commitment in this regard at the WTO High Level Symposium on Trade and Environment in March 1999 would be timely.

101. The representative of Canada said that Iceland's paper provided a useful overview of Iceland's fisheries management. Australia's paper (WT/CTE/W/105) identified subsidies as promoting excess levels of effort and capacity. Canada agreed that subsidies could result in overcapacity, but noted the environmental benefits of eliminating tariffs and non-tariff measures. Removal of barriers which supported artificially high price levels would increase import competition in the market and place a downward pressure on prices. This would bring about rationalization in the domestic industry forcing inefficient players out and reducing the size of domestic fleets. This would also have a positive effect on harvesting capacity and resource sustainability. Canada also emphasized Australia's point that certain subsidies can have positive environmental impacts if subsidies were used to adjust fishing activities and restructure the fisheries sector. Canada supported this type of subsidy provided that it effectively promoted sustainable exploitation of fisheries resources. Increased transparency and greater monitoring of the size and forms of fisheries subsidies was a first step to address concerns about their environmental and trade impact. Canada supported further research by the FAO and others to improve data on the value and form of global fisheries subsidies. Canada noted that excess vessel capacity cannot be resolved by shifting the problem to others. This practice, if it led to unsustainable catches, will contribute to fish stock depletion.

102. The representative of Japan said that his delegation was concerned about Iceland's conclusions and the neutrality of its data. It was inappropriate for Australia's paper (WT/CTE/W/105) to conclude that fisheries subsidies promoted over-fishing and that their reduction would lead to the protection of fish resources. Rather, over-fishing was caused by poor fisheries management systems. Certain support measures were indispensable to encourage the conservation of fish resources and ensure sustainable fishing. Australia's paper indicated that subsidized fishing operations of distant water fleets may reduce the fishing opportunities available for local fishing. Japan believed that the management and distribution of fisheries resources should be resolved through coordination in the appropriate regional fisheries management organizations.

103. The representative of Korea said that his delegation was monitoring the discussion on subsidies and over-capacity in the OECD and FAO. Korea welcomed Iceland's paper as it illustrated that rigid governmental enforcement accounted for the success of sustainable fisheries management. Korea inquired as to the extent Iceland's success was the direct consequence of the absence of fisheries subsidies. Korea felt that fisheries conservation cannot be achieved only by reducing subsidies given that the main cause of overexploitation was the lack of sustainable fisheries management. To improve the situation in global fisheries, all factors should be considered comprehensively, not only subsidies. More empirical studies were needed on fisheries subsidies and their effects on trade and environment as the linkages between the two were not clear. The distinction between different forms of subsidies should be made and their net impacts analyzed. Certain subsidies could have positive environmental impacts by reducing fleet capacity, for example those aimed at sustainable fisheries use and management and those for restructuring the fisheries industry. Seasonal variations in which different species were caught made it difficult to identify if a particular subsidy supported the catch of traded or non-traded species. Given the uncertainties in identifying the right level of capacity to achieve the right level of fisheries, it was doubtful whether the withdrawal of catch enhancing financial support was an adequate response.

104. The representative of the United States congratulated Iceland on its apparent success with fisheries management as set out in its national experience paper. The US agreed that over-capacity played an important role in many regions in the depletion of fish stocks and that subsidies contributed to this problem. The US supported international efforts to assess, monitor and control excess capacity in the fisheries sector. Sound management practices were a central component of sustainable fisheries. Although the US respected the sovereign right of countries to manage their own natural resources in keeping with the Convention on the Law of the Sea, the US agreed with Australia that the international community should cooperate to ensure the sustainable use of global fish stocks.

105. The representative of Norway appreciated Iceland's national experience paper on fisheries conservation. Norway agreed with Australia's paper that excess capacity in global fishing fleets was closely linked to inadequate management regimes and that subsidies were not the only problem facing global fisheries. Some subsidies may have negative effects on resources and lead to capacity problems, while others may act to reduce fishing fleets with the aim of restoring fish stocks. Reducing trade barriers will only, to a limited extent, contribute to reducing excess capacity compared to the effects of improvements in resource management systems and reductions in certain subsidies.

106. The representative of Australia said that Iceland's paper demonstrated the benefits of fisheries management. Given that there was more research on this sector than any other under Item 6, it was difficult to accept that some linkages were unclear or at an early stage of analysis. The issues of subsidization and fisheries management could not be dealt with separately. Distant water fishing was the best example of where over-capacity and over-fishing domestically reinforced each other by forcing fleets into international waters or illegal fishing.

107. The representative of Iceland, responding to Korea's question on the extent to which Iceland's success was based on its fisheries management system or the absence of subsidies, said that these issues could not be separated. As noted in Iceland's paper, a fisheries management system was a

necessary, but not sufficient condition for sustainable fisheries. While Iceland had set up a rigid fisheries management system, there had been a lack of economic incentive to get the stakeholders to participate in building sustainable fisheries. The incentive to reduce catch and concentrate on its quality, not quantity occurred if the sector were based on competition.

108. The observer of the Food and Agriculture Organization (FAO) said that, subject to endorsement of the FAO Committee on Fisheries, FAO would undertake a follow-up to its 1997 assessment of fisheries subsidies, including cost and methodological questions on measuring trade distorting effects from subsidies on production and trade as well as the distribution of the effects across countries. This study should be concluded by the March 2000 meeting of the Sub-Committee on Fish Trade and would be made available to the CTE. The FAO said that at the recent consultations on developing non-discriminatory, technical guidelines for eco-labelling of products from marine capture fisheries in October 1998, concern had been expressed about the effect of eco-labelling on market opportunities, particularly for developing countries. Although no agreement had been reached at that meeting on the feasibility of FAO drafting guidelines, there had been a consensus that any agreement should be consistent with the Code of Conduct for Responsible Fisheries and take into account certain principles. Development of these guidelines should also be consistent with related work in other intergovernmental organizations, particularly the WTO, ISO and Codex Alimentarius.

Forestry

109. The representative of Canada supported Australia's reference to the potential environmental benefits of removing tariff escalation and tariff peaks in several sectors, including forestry. A key objective of Canada was to achieve the elimination of tariff escalation in key sectors. The "zero for zero" and harmonization initiatives of the Uruguay Round were important achievements in allowing companies to exploit their comparative advantage without the distortion of tariff escalation. Canada's national experience paper (WT/CTE/W/81-G/TBT/W/61) supported Australia's analysis of trade diversion caused by tariff escalation as in the case of the elimination of tariff escalation between Canada and the US following the implementation of the Canada-US Free Trade Agreement. Although it was difficult to isolate the direct impact of one factor during changes in trade composition, the trend was interesting to note. Not only had overall volume increased, but the composition of Canada's trade with the US had shifted toward paper products which had been subject to tariffs. The overall tendency had resulted in a relative shift of Canada's comparative advantage to paper production and to other paper products. In addition to an increase in economic efficiencies, shipping paper rather than pulp resulted in reduced energy requirements as pulp exports required that the pulp be dried before shipping, then remoistened for paper manufacturing and redried as paper. The elimination of one industrial process, a second drying stage, increased efficiency. Canada called for the accelerated elimination of tariff peaks and tariff escalation, particularly on forest products.

Leather

110. The representative of Brazil said that the best approach for deepening the sectoral analysis under Item 6 was to contribute national experiences setting out "win-win" situations. The Secretariat's Note, WT/CTE/W/67, was a good basis upon which to identify situations where trade liberalization and environmental protection can be mutually supportive. A WTO Secretariat paper, *Trade and Tariffs in the Leather Sector*, dated November 1998, also contributed to discussions on market access. Leather and leather products covered in this study fell into three groups according to the degree of processing: raw leather; prepared leather; and finished leather products. Between 1990 and 1996, global demand for leather and leather products increased from US\$ 13.3 billion to US\$ 41.5 billion. While world trade in raw leather was US\$ 4.3 billion, prepared leather accounted for US\$ 12.6 billion and finished leather US\$ 24.5 billion. Asia and the Middle East accounted for 51 per cent of world leather exports, followed by Europe (32.2 per cent). As importers, the same regions had the greatest market share (43.5 per cent and 32.9 per cent, respectively). Although the Uruguay Round had resulted in a general reduction of tariffs on leather, the weighted average tariff

rate was 7.3 per cent, the second highest after textiles and clothing, at 12.1 per cent. Tariff escalation was evident in most leather producers, whether developed or developing countries. Most importing countries imposed zero or low tariffs on raw leather to encourage the purchase of less-processed leather, which was used in the processing industries. For prepared leather products, tariffs in some selected markets ranged from 3 to 10 per cent. The highest tariffs were applied for most finished, value-added leather products, ranging from 5 to 24 per cent. Thus, most WTO Members still applied high tariffs to protect their local leather industries.

111. CTE discussions on leather were important for Brazil. The Brazilian leather sector was composed of around 400 tanneries, among which 80 per cent were small enterprises, providing jobs for around 60 000 people. This sector yielded US\$ 1.5 billion per year with half of its production exported. In 1998, Brazilian leather exports represented US\$ 651 million. The increase in exports by 433 per cent since 1984 demonstrated the industry's competitiveness. Brazil provided around 11.5 per cent of the international bovine leather market (260 million units), the value of which had grown from 3.7 per cent in 1990 to 9.1 per cent in 1997. To increase its competitiveness, Brazil's leather industry had invested US\$ 300 million in technological improvements until 2002. A priority of Brazil's leather sector was to add value to exports. Despite these efforts, Brazilian exports of finished leather products had witnessed only small variations, with a short decrease between 1994 and 1998. Raw and prepared leather exports, however, had increased considerably in that period: respectively 623 per cent and 123 per cent. As less processed leather exports had experienced such a significant increase, the average price of Brazilian leather had dropped by 33 per cent.

112. Conventional methods of production of raw and prepared leather had a high environmental impact. However, production of finished leather products was not associated with environmental damage, since cleaner technological methods had been incorporated. Strict environmental regulations were required to prevent pollution in leather production. Leather producers could only comply with environmental legislation if they had sufficient revenues to invest in cleaner technologies. Tariff escalation discouraged leather producers from investing in more environmentally sustainable technologies. Thus, a positive outcome for trade and environment would be to eliminate tariffs on finished leather products; improved market access in this sector would permit increased production of value-added, thereby increasing the potential for investment in cleaner technologies. Given that trade liberalization should be accompanied by sound environmental policies, additional measures could be applied, such as taxes on raw leather production, which would be based on the Polluter Pays Principle and would create funds for the development of cleaner technologies.

Other Items

Item 8 The relevant provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights

113. The representative of India recalled previous discussions in which one delegation had commented on India and Colombia's suggestions at the 23-24 July 1998 meeting to look at the objectives of the Convention on Biological Diversity and the TRIPS Agreement to examine the means to ensure environmental protection. The issue was not that there was a conflict between the TRIPS Agreement and MEAs, nor that one agreement would be used to enforce another. There were provisions in each agreement which would be enforced domestically through laws. The idea behind the suggestions at the July meeting concerned the intentions of the international community to implement these agreements in a manner which was mutually compatible. There was nothing incompatible with the suggestion that when an applicant applied for a patent, the source of the material used to create the invention could be indicated, thereby enabling the owners of the original source to share in the benefits arising out of its commercial use.

Other matters

114. The observer of the United Nations Environment Programme (UNEP) said that based on the renewed mandate from the recent session of the UNEP Governing Council, UNEP will reinforce its work on trade and environment to: (a) build coherence within the UNEP-Administered Conventions; (b) develop methodologies for environmental reviews of trade liberalization; and (c) enhance the capacity of developing countries to integrate environmental consideration in trade policies, especially through country specific work. UNEP was preparing a draft agreement on cooperation between the WTO and UNEP Secretariats. UNEP was looking forward to jointly organizing a meeting between UNEP-Administered Conventions and the WTO Secretariat on 28 June 1999. UNEP will also continue to participate in the WTO Regional Seminars on Trade and Environment, such as for Sub-Saharan Africa in February 1999. UNEP was looking forward to working with the WTO, other international organizations and civil society to advance discussions on trade and environment and will convene a briefing session for Geneva-based Missions on 9 March 1999 to solicit input on the direction of UNEP's activities and its collaboration with the WTO and other organizations.

115. The CTE agreed on the following Secretariats to invite to the MEA Information Session at the 28-29 June 1999 meeting of the CTE: the Convention on Biological Diversity; the Convention for the Conservation of Antarctic Marine Living Resources; the Convention on International Trade in Endangered Species of Wild Flora and Fauna; the Framework Convention on Climate Change; the Intergovernmental Forum on Forests; and the Montreal Protocol on Substances That Deplete the Ozone Layer.

116. The CTE expressed its appreciation for the excellent guidance provided by Ambassador Chak Mun See throughout his Chairmanship of the Committee, and for the substantive contribution of Ms. Sabrina Shaw as Secretary.
