

**International Actors and Institutions in the Environmental
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Assessed essay (8):

Can economic institutions ever be environmentally friendly?

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Can economic institutions ever be environmentally friendly?

The environment has over the past decades become a growing concern for the global society. Whereas previously only local environmental problems were seriously discussed this has now changed. Globalisation is but one of the reasons for this, though admittedly one of the more important ones. And in this context trade and the economy of states play a significant role. The institutions representing these sectors of the global society, the World Trade Organisation (WTO), the World Bank and the OECD among others, have recently begun taking problems relating to their respective areas of influence more seriously.

The OECD was the first economic institution to establish an Environment Committee in 1970 to discuss common environmental problems. And especially since the UN Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992 it has been recognised that multilateral trade plays an important role in the effort to protect the environment. At the end of the Uruguay Round negotiations of the WTO in 1994 trade ministers agreed to raise the profile of the environment on the WTO agenda.

Trade and Environment

How much and to which effect trade is actually linked to problems in the environment is a disputed issue. Environmental organisations such as Greenpeace or the World Wide Fund for Nature (WWF) believe that policies advocated by the international economic institutions have a mainly negative

effect on the environment. The WTO, the world's governing body concerning multilateral trade, has previously on several issues judged that environmental policies, which could be used as measures to bar certain imports, are illegal. Many leading supporters of free trade have often voiced the opinion that free trade in fact improves the environmental situation, however. Free trade, in their view increases the living standards, which in turn increases environmental awareness (see section on Development and Environment). As Håkan Nordström and Scott Vaughan describe it openly in the latest WTO report on Trade and Environment, "sweeping generalisations are too often heard from both the trade and the environment communities"¹. Changes in this respect are becoming evident though there is still a heated debate between the two sides. The WWF welcomes this admission in the WTO report², though many others are still more critical of the WTO's role. However, at the same time the WTO and other organisations do not accept that they should be the primary enforcers of environmental regulations. A World Environmental Organisation similar in structure to the WTO is one of the ideas that have been brought forward as a possible solution³. However, the WTO does agree that trade sanctions can be used against others in environmental cases. This should be restricted to the participants of multilateral environmental agreements (MEAs) and contains risks for the trading system if all the parties involved do not accept it⁴. Nonetheless this is often the only way to make sure that governments do implement environmental policies without appearing to damage their countries' competitive position. Concerns

¹ Nordström et al., 1999; p.1

² The Economist, 9.10.1999; p. 125

³ *ibid.*; p. 18, also WWF et al., 1998; part 1

about competition among nations in global trade are often one of the main reasons for governments not to use first-best environmental policies. When jobs and investments appear to be under threat from having environmental standards that are higher than others have, new initiatives can be hard to forge⁵. However, sometimes governments do set unilateral trade restrictions in an effort to protect the global environment.

After recent cases concerning trade and environment issues the WWF in cooperation with the Centre for International Environmental Law (CIEL) and others published a paper criticising WTO rulings which appear to grant greater importance to free trade than environmental concerns. As an example they mention the Shrimp-Turtle Dispute between the United States and several Asian countries. “After reviewing the [WTO dispute settlement] panel report, WWF and CIEL consider that the panel has failed to achieve such a balanced settlement” considering legal and conservation arguments and facts⁶. The WTO’s rulings on ‘barriers against free trade’ have frequently been criticised for their apparent low concern for the environment. In defence of the WTO it must be said though that it simply was not established as an expert in environmental issues. However, in the end it is also important to be aware of the fact that this is one of the reasons why an independent international body should be established for the environment. In addition, “some combination of WTO rule changes and sharing of jurisdiction with other intergovernmental bodies with relevant policy mandates will be central to this broader approach. There should be a role for UNEP ... on environment...-related trade

⁴ WTO, 1999-1; p.5

⁵ *ibid.*; p.6

⁶ WWF et al., 1998; part 1

disputes,.... Where WTO rules conflict in any sense with multilateral environmental agreements, the WTO must collaborate with and share or yield its jurisdiction to those agreements”⁷. The problem is that the WTO does not always seem to recognise this, even though in Article XX of the GATT the signatories had committed themselves to permit exceptions to GATT trade rules - such as protection of plant, animal and human life (Article XX (b)) and conservation of natural resources (Article XX (g)). But in the aforementioned dispute the panel finds that, “measures such as the United States' will be denied Article XX protection "irrespective of their environmental purpose”. The panel report implies that the status of turtles as common heritage of mankind would reduce rather than strengthen the United States' right to impose unilateral measures”⁸. The implication of this is that though international environmental law does exist on the issue – the turtles are considered an endangered species – it cannot be enforced, as there are no other sanctions available against countries, which do not abide by it. Wider international cooperation on these issues is similarly important. Furthermore where environmental problems arise on a more localised or regionalised scale it is necessary that the concerned states agree on a mutually acceptable procedure to protect the environment. As is often the case in such situations regional environmental agreements are often a better means to achieve the set goals, as different nations put different values on environmental amenities⁹.

⁷ *ibid.*; part 5

⁸ *ibid.*; part 2

Development and Environment

Development issues are also very closely related to environmental problems of all sorts. As rich countries and the public there become more aware of the environment, people in poorer and less developed nations are attempting to reach similar lifestyles. However, this often happens with a similar concern for the environment as was evident during the industrial revolution in the now developed countries. This means that increased industrial and agricultural activity appears to increase the risk to global resources, including the pollution of air and water. In an attempt to avoid the mistakes of the past rich countries are trying to force developing countries to protect the environment. However, as the latter prioritises more basic needs such food, energy, education and access to health services this often appears to be in conflict with sustainable development. As Culbard and others say in their presentation “development can only be successful ... if people [are provided] with a chance to advance”¹⁰. This usually depends on the former basic needs to be in place before a real consciousness for the environment can be established. Attempts to side-step this necessary development are being made by the World Bank as it improves access to better technology and tries to educate people to be concerned with the environment and to manage the resources available in a better way. In cooperation with various institutions and organisations best-practice examples are provided¹¹. As UNEP says it is important not to forget “recognizing the ‘common and differentiated responsibility’ of developing and

⁹ Nordström et al., 1999; p. 3

¹⁰ Culbard et al., 1999; p.36

¹¹ World Bank, 1999

developed countries and ensuring the necessary financial and technological support to developing countries” when promoting universal participation in environmental programmes.¹²

Furthermore, foreign companies and also domestic industry are coming to realise that good environmental practice is a good investment. Through a positive public image the cost of introducing more environmentally friendly production methods and products is often more than reimbursed. As technological advances are made less damaging business can be made. The problem is that poor countries often cannot afford to use the best solution but must make do with cheaper and more polluting ones. Attempts are being made by economic institutions and NGOs to remedy this situation, but often the direct results are marginal. However, according to a hypothetical application of the Kuznets Curve to the environment this might only be a short-term condition, which should improve as the economy, becomes more developed. There is a need though for good political governance to make sure that the right policies are introduced and not averted because of competitive pressure¹³.

Conclusion

In an ideal world there would be no need for economic institutions to be concerned with the environment, as governments would apply the first-best policy available to solve environmental problems. At the same time their

¹² UNEP, 1999

¹³ WTO, 1999-1; p. 7

economic policies would ensure a sound competitive position not threatened by such concerns. However, as this is not the situation there is a big need for economic institutions to be included in the environmental debate. In the absence of other institutions to enforce environmental standards on a global or even regional scale trade sanctions or barred access to international investment appear to be the only solutions available. In addition, economic decisions more or less invariably affect the environment too. While it is necessary to address development issues at the same time, protecting the environment is and will become an ever more important concern to humankind. The global commons is threatened by the adverse consequences of resource degradation. Increasing globalisation and overpopulation are causing an unprecedented need for cooperation among nations in an attempt to solve these problems. Only when all parties agree will it be possible to improve the situation in such a way that a possible solution to the growing threat to the world environment might be found. Rich countries will however, be required to play an active role in promoting improved environmental policies and support less developed countries in achieving them. Part of this effort will stem from the participation of and co-ordination through economic institutions. Economic institutions will never be environmentally friendly as such and this is not their *raison d'être*. However through the use of their resources, organisational structures and procedures the international community can attempt to work on better results for the environment. In addition if the economic institutions do apply environmental guidelines in their policies they can at least to some extent offset the damage done through their

economic actions. The WTO would have to accept more influence over environment-related trade by other international organisations, especially a possible global environmental organisation with pro-active powers. Development related institutions such as the International Monetary Fund, the World Bank or the OECD, will need to introduce more environmentally friendly policies. There is a need though to permit them to grant a greater level of importance to certain developmental issues when people would be made to suffer if the environment were given greater importance. The belief that good environmental practice and a competitive economy are incompatible has to be shattered.

In the distant future most economic institutions might not be needed anymore. When all countries can be described as developed, at least in the post-industrial sense, their day will have come. In contrast environmental organisations will most likely still be needed for a long time. As most environmental problems only develop over very long periods of time, I can imagine problems arising we are now not even aware could exist. And even some of the issues we are dealing with currently will not be solved in the near future either. However, there is hope that greater damage can be avoided if we use all our strength to change the way we live and become more aware of the environment surrounding us. Only then will future generations be able to continue living for centuries to come.

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