

How is SIA helping to make trade policy more sustainable?

A Private Sector View

I my presentation today I would like to concentrate on four issues

- Trade liberalisation as an essential tool for sustainable development
- Do conflicts between trade liberalisation and sustainable development exist and what to do to solve the problem.
- The institutional architecture for flanking measures.
- Other Initiatives

Given my expertise, I would like to concentrate on SIA in the WTO negotiations.

Some time ago, ladies and gentlemen, the Nobel Prize winners Milton Friedman and Gary Becker claimed that economic freedom should be established worldwide, in order to create welfare and to prevent poverty and terrorism. The formula behind this statement is simple but nevertheless convincing: the more economic freedom, the more per-capita-income.

This formula is confirmed by a 50 years' experience: trade liberalisation is clearly one of the cylinders that propel the engine of growth. Now, at the outset of the 21st century, the role of trade has changed in the context of a globalised world: **We have become aware that trade liberalisation is and should be used as an essential tool for sustainable development.**

Undoubtedly, liberalising trade in goods is desirable; it will result in welfare gains purely economically speaking. Yet this is not any longer sufficient if we take the notion of sustainable development as our “Leitmotiv”. We therefore must assess the non-trade impacts of trade liberalisation and need to put the social, environmental and development aspects into context with a view to achieving a balanced result. In view of this European business is supportive of the Commission’s initiative to carry out a sustainability impact assessment (SIA) of trade negotiations.

The SIA framework is designed to assess the sustainability impact of each negotiating subject included in the Doha Development Agenda. It will allow for a better understanding of the effects trade liberalisation entails. Thus, SIA, in my view, can help informing and assisting the negotiators throughout the negotiations and help to arrive at solutions which indeed deserve the label "sustainable".

However, the impact assessment has to meet one basic requirement if it is to be relied upon: **All** indicators need to be taken into account **equally**, with respect to the three sustainability dimensions, i.e. the environmental, the social as well as the economic dimension. An appropriate input analysis will help to understand the inter-relationship between trade liberalisation and non-trade concerns. As far as the economic indicators are concerned I would not only look at the tariff structure, the relative prices, the terms of trade and business opportunities, I would also include research and development data.

We have to admit the limitations of SIA, however, whatever methodology we accept. SIA gives indications and provides for elements which the negotiators should take into account. There will and must be a political discussion on how to use the SIA findings.

To understand why and where trade enters into the sustainable development debate, it is important to understand the root causes of

environmental degradation or social problems. These can often be traced back to various market and policy failures. In other words: **Conflicts arise as a result of the failure of political institutions to address environmental and social problems!**

So, what does this suggest? First, it suggests that **governments must do their part by regulating polluting and resource degrading activities appropriately as well as by addressing the social issues according to their stage of development.** Here, the initiative may shift from the national to the bilateral or international level. In addition, democratic political structures and processes turn out to be important. Comparing countries at the same income level, pollution tends to be worse in countries with skewed income distribution, a high degree of illiteracy and few political and civil liberties. Thus we have to draw the conclusion that **the equation "more trade = more income + less pollution" is generally short-cut, and can only be applied in selected contexts. Instead, we need to integrate institutional and democratic reforms which are necessary for allowing ordinary citizens to articulate their preferences for environmental quality and influence the political decision making process.**

But this is not enough! So, what else do we need? In order to give an answer, let's scrutinise the issue of policy failures. Should we argue against trade liberalisation if this exercise might lead to unsustainable results, or do we rather need to address the underlying problem – namely the policy failure - when we engage in trade negotiations?

My answer is clear. The trade liberalisation exercise needs to be coupled with the negotiations of the so-called flanking measures or side agreements?

I think it will be relatively easy to negotiate those side agreements in bilateral negotiations. If both sides have seen that there is a problem, they can address it. If they cannot agree there will be no agreement.

At the multilateral level the issue becomes more difficult. We have international institutions which deal with environmental, developmental and social questions. European business favours a division of labour between these institutions and calls upon them to contribute to international rule-making in their respective field of expertise. We see a need for WTO, ILO, UNEP and other international organisations to co-operate so that they altogether make sustainable development work.

We understand that this approach is not ideal since not all institutions are effective, yet we believe that it reflects existing international governance structures and as long as the world is not ready for radical institutional changes at international level we should at least try and make the existing institutions work.

We are aware of the shortcomings of this approach; we believe however that we can address them:

First, the traditional form of negotiations between sovereign states under public international law leaves us with the dilemma of non-ratification: International agreements are based upon the principle of national sovereignty; states are free to sign and ratify the negotiated conventions. Unfortunately, we have seen many examples where countries reject to ratify international agreements. Of course, we can discuss whether trade measures should be enforced against those countries. We have to recognise, however, that trade measures are rarely the first-best policy for addressing the environmental or social problems. Here, the WTO could serve as an example. Why not combine individual negotiations in each forum and negotiate package deals as a single undertaking. Countries will then not be able to pick and chose but will ratify all agreements if they consider them beneficial overall.

Second, what if one institution cannot deliver on a given subject. Should the trade liberalisation in the WTO then be postponed until the other

organisation has put its rules in place? Here I have no easy answer but I would suggest that trade liberalisation would increase the pressure for the other institutions to tackle the policy failure.

Third, how do we deal with conflicting requirements of international rules? This issue can be solved by addressing the relationship between the different agreements. For example the WTO-negotiators are asked to address the relationship between existing WTO rules and specific trade obligations set out in MEAs.

To summarise, ladies and gentlemen, European business considers that the international institutional architecture can and should be used to combine trade liberalisation with positive rule-making to arrive at sustainable solutions.

If you allow me to take off my hat as chairman of the UNICE working group on trade and environment and to make a personal remark I would also like to put forward the idea to give **"More Power to the WTO"**!

The WTO is not any longer a pure trade agreement. Given the fact that trade has already been liberalised to a large extent, and that the WTO has already engaged in, what I would call, "positive rule making", then I would suggest that **to use the WTO as a forum where to address these policy failures at least in those cases where the trade liberalisation and the policy failures are closely linked.**

Compared to other international fora, the WTO offers considerable advantages in global governance: Package deals can be struck to break negotiating deadlocks; and disputes will be settled effectively.

So, why not negotiate a side-agreement within the context of the WTO?

Let us also have a look at other initiatives, such as voluntary initiatives. The business community supports such initiatives as long as they remain voluntary. We believe that measures which go beyond what is legally required can only be successful if they remain voluntary. I stress this point because I feel that voluntary initiatives can make a difference and we should use them, but for them to work we need to establish an atmosphere of trust.

If our voluntary initiatives are immediately met with criticism, we will never establish the necessary trust, we will refrain from taking the initiative and just wait for the regulator to legislate. We all know that this can take quite a long time in the area of international negotiations.

Let me give you an example of a successful voluntary initiative of a big chemical company in the context of the Global Compact. This company has put its own eco-efficiency team at the service of UNEP and UNIDO to analyse the eco-efficiency of an SME in Morocco producing dyes with a view to change and modernise the production process. The aim was to have this company produce competitively and in an environmentally sustainable manner.

The project was successful. The chemical company will now train UNIDO/UNEP staff so that both institutions can build on that example and use eco-efficiency also for other companies in other developing countries. I strongly believe that we should use such initiatives.