Biodiversity IN Development

Biodiversity Brief 2

Trade policies and biodiversity

Trade liberalisation policies can have positive environmental impacts. They can improve the efficiency of resource allocation and contribute to economic growth and welfare improvement. But such policies can also lead to over-exploitation of natural resources, loss of wildlife habitats and the replacement of mixed production systems with monoculture practices. The poor in developing countries require additional support to take advantage of the opportunities provided by new trade policies, in ways that do not cause large scale losses of biodiversity.

Improvements in communications and transport, the removal of policy barriers and the integration of subsistence producers into national markets are enhancing the role of prices and markets in determining patterns of trade and production. Natural resources are frequently undervalued in these markets because little or no account is taken of external social and environmental benefits. Efficient markets require good information and mechanisms to ensure the users of any resource bear the full costs of its use. This presents two difficulties: first, tracing the path from increased trade to the impact on resources and biodiversity, and second, the design and enforcement of regulations and incentives (see BB4).

Trade liberalisation and biodiversity – unpredictable outcomes

Trade policies can influence biodiversity in different ways, and the impacts of trade liberalisation are often unpredictable. Even the global decline in primary commodity prices has had unexpected impacts. For example, some farmers in Cameroon did not harvest their cocoa and coffee trees when prices plummeted, but nor did they cut them down and replace them with other crops. They kept them in case there were future price rises.

The likely impacts of trade liberalisation on biodiversity have been considered below, under six themes:

a) Trade liberalisation can lead to **an increased demand for natural resources from developing countries.** This has led to over-exploitation in the past, especially where resource prices do not reflect the full environmental and social costs of consumption. But improved trading conditions could also provide incentives for sustainable management of natural resources. The latter route is possible where management institutions have sufficient capacity to regulate harvesting processes, where benefits of resource use are equitably shared, and where ownership of resources gives value to future benefits that might be gained from sustainable harvesting.

Where increased demand for endangered species is considered a threat to wild biodiversity, compliance with the Convention on

European Commission
DFID Department for International Development
IUCN The World Conservation Union

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The impact of trade demand for prawns means that fisheries focus only on these valuable species (caught here in the Moluccas Islands, Indonesia), and a substantial by-catch of other less profitable species are thrown back into the sea, dead.

International Trade in Endangered Species (CITES) can monitor and control this trade. Its effectiveness, however, depends on national legislation, and on the number of signatory countries. Another limitation is that CITES was not drafted to recognise that international trade can sometimes support conservation by providing financial incentives to protect species and habitats through sustainable use, although this role has been recognised at recent CITES conferences (see BB20).

b) Trade liberalisation can also give rise to **a shift in production between countries.** For example, liberalisation of trade in agricultural products between Europe and developing countries, through the dismantling of the European Union's Common Agricultural Policy (CAP), would be expected to provoke a global shift in agricultural production towards developing countries. Impacts on biodiversity will depend on associated changes in land use, such as conversion of forests and rangelands to agriculture. There is concern, but as yet no evidence, that global trade may encourage countries to adopt low environmental standards in order to attract investment and gain competitive advantages, and developing countries are concerned that the inclusion of environmental standards in trade negotiations could be used in trade protectionism.

c) Another consequence of trade liberalisation can be **a shift in the type of crops produced.** Within developing countries, trade liberalisation would be expected to stimulate a shift towards export production and away from production for domestic consumption. As a result, wealthy countries leave a 'footprint' in regions where liberalised trade policies allow global market demands to determine local land-use practices. Impacts on biodiversity may be negative, for example if sustainable mixed farming is replaced by large-scale exotic monocultures, as is the case with soya bean production in northern Brazil. They can also be positive, for example, where annual food crops in farm-fallow systems are replaced by biodiversity-friendly perennial crops, such as coffee growing under forest shade.

d) The **local availability of imported manufactured goods** is likely to increase in associa-

The Common Agricultural Policy (CAP)

The CAP restricts imports of food into the European Union, and subsidises exports (to dispose of the surpluses created by higher prices within the EU). It also raises the costs of European manufactured goods and other non-agricultural products (by imposing the price and tax costs of the CAP on European economies). The effect of the CAP is to increase the price of imported goods from developing countries, thus reducing demand for their products, and hampering growth of the agriculture sector. It also distorts local markets in developing countries, because cheaper imported foods from Europe remove incentives to develop local agricultural systems.

Green labelling and green trade

Voluntary labelling is becoming widespread, and can be valuable in informing the consumer about the biodiversity consequences of their choices. At the same time, it is important to ensure that green labelling does not unfairly restrict access by developing countries to the markets of developed countries. According to the World Trade Organization, compulsory green labelling constitutes a restraint on trade and is considered discriminatory.

Labelling raises questions about who should set standards. In forestry, it is set by independent, commercial organisations such as the Forestry Stewardship Council. A similar scheme, the Marine Stewardship Council, is being developed for fisheries. Both organisations are gaining credibility, increasingly being accepted by commercial producers and sellers, and making a valuable contribution to biodiversity conservation. As the costs of certification (labelling) will be higher for small producers and low volume sectors, it is possible that green trade and environmental regulations might lead to the exclusion from markets of some developing countries that cannot afford the necessary technologies. Development cooperation assistance could help to address this problem.

tion with trade liberalisation, depending on demand and distribution. The implications for biodiversity will depend on whether local goods are currently being produced sustainably, and whether the natural resources going into their manufacture will continue to be valued if imports replace them. Similarly the impacts of increased availability of fertilisers, pesticides and other imported goods on biodiversity will depend on whether current use levels are excessive. Input use is often relatively low in developing countries and, especially in the case of fertiliser applications, may be regarded as sub-optimal where depletion of soil fertility and reduced productivity encourages the clearance of new land.

e) Trade liberalisation provides **greater consumer choice**, and choices can be biodiversity-friendly or biodiversity-degrading. What is important is that consumers should be provided with information on the biodiversity impacts of their consumption, and that prices accurately reflect the full environmental costs of consumption.

Global trade encourages standardisation, as global markets prefer products that are uniform (in size, colour and taste, for instance) so that these can be graded and priced consistently. Again, implications for biodiversity are probably negative as production concentrates on relatively few varieties and production systems. On the other hand, increased global trade liberalisation can also create opportunities for niche products, such as green fair trade products that can be important in creating markets for, and adding value to, biodiversity.

f) The introduction of **new technologies** and new production standards in developing countries can be rapid, especially where trade liberalisation is associated with new opportunities for direct foreign investment. In some cases, such as improved technologies and standards for pollutant emissions and waste management, these will be biodiversity-friendly. In other cases, access to new technologies may speed biodiversity degradation: if new weapons become available for poaching, or new extraction machinery assists tropical deforestation, for example.

In many countries, the poor do not have access to the resources they need to respond rapidly and effectively to trade liberalisation, such as information and credit. Trade liberalisation may well promote economic growth, but it does not necessarily follow that it will also help with poverty elimination. The poor may be marginalised in the process, and forced to fall back on unsustainable natural resource exploitation during the transition period.

Recommendations

- Undertake strategic environmental and social assessments of trade agreements and related measures as part of negotiation processes. Issues identified should be addressed systematically at the international, national and local levels.

- Ensure that information is available for consumers to make informed choices, through support to voluntary labelling that is based on research and monitoring of the effects of different production systems or processes.

Consumer preferences, consistent pricing and ease of packaging can define the types of products which are successful in world markets. This means that a few species and varieties tend to predominate while local varieties are lost.

WWF-CANON/JOHN MEWBY

This Biodiversity Brief is based on a draft by Charlotte Boyd, Sheila Page and Michael Richards of the Overseas Development Institute, and was edited by the BDP and Martyn Murray (MGM Consulting Ltd). Additional technical input was provided by Britt Groosman.

This Brief was funded by the European Commission Budget Line B7-6200 and the UK DFID. Opinions expressed in this document are the contributors' alone, and do not necessarily reflect those of the European Commission, DFID or IUCN. The Brief does not imply any opinion on the legal status of any country, territory or sea, or their boundaries.

The World Trade Organization (WTO) and biodiversity

The WTO, established in 1995 to replace the GATT, is an international membership organisation that aims to abolish quotas and reduce tariff duties. It enforces multilateral trade rules through its dispute settlement process, and these rules, and a code of conduct, have been developed through successive negotiations under the General Agreement on Trade and Tariffs (GATT), the General Agreement on Trade in Services (GATS) and Trade-Related Aspects of Intellectual Property Rights (TRIPS).

The WTO includes some provisions specifically allowing environmental protection, for example import restrictions to meet national environmental and health and safety standards. The WTO agreement also allows payments to farmers through environmental programmes, subject to certain conditions, and it allows government support to industry to cover the cost of adapting to new environmental legislation. However, current multilateral trade rules prevent governments from setting high environmental standards or labelling imported products, even in accordance with local consumer preferences, because these measures could be used to protect national trading from the open market. Greater international harmonisation of environmental standards is one way to circumvent this problem, but in some cases it may be important to retain a flexible response by governments to local conditions.

The WTO's Committee on Trade and Environment is concentrating on analysing the trade impacts of environmental policies and, more recently, on ways in which international markets can promote environmentally-friendly production in addition to conventional gains in income and development (win-win scenarios).

- Develop international markets sensitive to biodiversity concerns, and trade in products and services from biodiverse ecosystems, for example, nature tourism (see BB9).
- Correct perverse incentives and develop positive incentives that encourage improved use of biodiversity products (see BB4).
- Strengthen national capacity to design, implement and enforce appropriate policies and regulatory systems to safeguard the environment and biodiversity. Note, however, that the World Trade Organization is inclined to rule against environmental regulations that it views as restricting free trade (see text box).
- Work with the poor to enable them to benefit from the opportunities provided by trade liberalisation, in ways which do not deplete biodiversity, for example, by assisting poor farmers to diversify if output prices fall as a result of new trade policies.

Further information

- Farquhar, I. (1999) The other side of the mountain: the impact of Europe's Common Agricultural Policy on sustainable agriculture in the South. IIED/DFID.
- Nordstrom H. and S. Vaughan (1999) Trade and Environment. http://www.wto.org
- OECD (1997 – 2000) Reports on Trade and Environment. http://www.oecd.org
- WWF (1999) Trade Matters. http://www.panda.org/resources/publications/sustainability/wto_reform/trade.html
- reference to other Biodiversity Briefs is denoted as (see BB#).

Website

All Biodiversity Development Project (BDP) documents can be found on the website: http://europa.eu.int/comm/development/sector/environment