

For Official Use

COM/TD/ENV(2000)127/FINAL



Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

03-May-2001

English - Or. English

**TRADE DIRECTORATE
ENVIRONMENT DIRECTORATE**

**COM/TD/ENV(2000)127/FINAL
For Official Use**

Joint Working Party on Trade and Environment

**REPORT FROM THE JOINT WORKING PARTY ON TRADE AND ENVIRONMENT TO THE
TRADE COMMITTEE AND THE ENVIRONMENT POLICY COMMITTEE (EPOC)**

Contacts: dale.andrew@oecd.org ; cristina.tebar-less@oecd.org

JT00107047

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

English - Or. English

REPORT FROM THE JOINT WORKING PARTY ON TRADE AND ENVIRONMENT TO THE TRADE COMMITTEE AND THE ENVIRONMENT POLICY COMMITTEE (EPOC)

Introduction

1. The OECD Joint Working Party on Trade and Environment continues to meet regularly twice a year and sponsor certain events, such as consultations with NGOs and workshops. This note reports on the major accomplishments in 1999 and 2000 since its last report to the Trade Committee and EPOC submitted in early 1999. It lists the main areas of work carried out in the JWP over this period, organised according to the work programme set out in the 1999 Report on Trade and Environment [C/MIN(99)14], the relevant portion of which is appended to this note. A list of key documents discussed in the JWP is also appended hereto.

Main areas of work

Transparency and effective engagement of civil society

2. NGO consultations were held on 16 May 2000 with 20 national environmental, labour and business NGOs and six international NGOs. The Environment and Trade Directorates' trade and environment websites are being redesigned and folded into a single site to enhance user-friendliness and ensure complete coverage of the JWP work.

Key environmental principles and interlinkages with trade

3. Following a suggestion by the Nordic countries which was subsequently adapted by the group, the Secretariat is undertaking a study on Uncertainty and Precaution which considers the implications of the scope, measures and issues arising between precaution in the framework of environmental protection and the trading system.

Transparency

4. A series of case studies of mechanisms and practices for consultation with civil society has been undertaken in eleven Member countries (Australia, Canada, Czech Republic, Finland, France, Germany, Japan, Korea, Netherlands, United Kingdom, United States) plus the European Commission and five international organisations -- the OECD plus NACEC, UNCTAD, UNEP, and WTO. A preliminary synthesis report of main points, including lessons learned, has also been produced.

Environmental effects of trade liberalisation

5. The analysis has focused on win-win situations that can bring both economic benefits trade and enhanced environmental protection as trade liberalisation takes place. During this biennium, case studies were carried out on the environmental effects of reducing trade distortions for fossil fuels. Papers on the environmental effects of the liberalisation of electricity markets in North America, submitted by NACEC, and in the Nordic countries, prepared by the IEA, were also discussed.

6. The 'win-win-win' effects of further global liberalisation of environmental goods and services were the subject of four studies over the past two years, which were subsequently edited and compiled into a single volume. Key findings were presented to the WTO Committee on Trade and Environment in October 2000.

7. The JWP was regularly informed on trade and environment-related analysis being undertaken in the OECD Joint Working Party on Agriculture and Environment. The group commented in detail on two papers which originally were done for the agriculture/environment group, dealing respectively with environmental impacts of agricultural trade liberalisation and production and trade effects of agri-environmental policy measures.

Assessment of environmental and trade agreements

8. The JWP has, in the run-up to the WTO Third Ministerial Meeting in Seattle, and since December 1999, been used as a forum for Members to share national experiences on their environmental and sustainability assessments. In October 1999, a two-day workshop was organised to take stock of the state of the art in methodologies to assess the environmental effects of trade liberalisation agreements. The volume of workshop proceedings was published shortly thereafter and made available to the WWF - Fundación Futuro Latino-americano meeting on sustainability assessment held in Quito, Ecuador in March 2000. The JWP is currently in the process of developing a methodology for assessing environmental effects of services trade liberalisation. No work on assessing the trade effects of environmental agreements was carried out during this period.

Kyoto Protocol and Trade Effects

9. As noted in the 1999 report, the JWP work on the environmental effects of reducing trade-distorting measures in the fossil fuels sector (see paragraph 5 above) is relevant. The group confirmed the need to wait for more concrete results on the Kyoto Protocol's flexibility mechanisms at the Conference of the Parties (COP6) in November 2000 before deciding whether to proceed to address some of the potential trade issues arising in this context.

ANNEX I
EXCERPT FROM THE 1999 REPORT ON TRADE AND ENVIRONMENT
C/MIN(99)14

III. Future OECD Work on Trade and Environment

56. It is essential that the forthcoming WTO negotiations contribute to the achievement of sustainable development. *Trade and Environment* is a key issue to be considered and it is important that environmental concerns be taken into account in the WTO agreements. Transparency and effective engagement of civil society are necessary for continued public support for an open multilateral trading system.

57. Both the OECD Trade Committee and the Environmental Policy Committee have noted the increasing political visibility of trade and environment issues and the need to continue work towards mutual compatibility of trade and environmental policies. In this regard, there is a continued role for the Joint Working Party to conduct analysis that can support the increased integration of environmental and trade policy making, called for in the 1993 Procedural Guidelines. It is also recalled that OECD work on trade and environment has a dual focus, both supporting improved co-ordination at the national level as well as providing analytical support for discussions of relevance in other international fora. Analysis should also take into account developing country interests.

58. The JWP's analysis should contribute to giving sustainable development and protection of the environment a stronger role in future trade discussions, including the upcoming WTO negotiations, and should support better accommodation of environmental policy in the WTO. Similarly, analysis should focus on enhancing the effectiveness of international environmental co-operation and avoiding undue effects on trade. Such analysis should also help highlight the importance of trade and environmental policy integration at national and international level.

59. The JWP should undertake analysis on how to accommodate key environmental objectives, principles and commitments into the multilateral trading system. Special focus should be on interlinkages between important trade and environmental principles, including those contained in the Rio Declaration. The JWP will conduct an in-depth discussion on how and where best to integrate these policy areas, both at national and international level.

60. The Committees therefore strongly support the analytical work of the JWP and propose that the JWP continue with its analysis, build on its results to date and endeavour to draw lessons and conclusions from the analytical work wherever possible. They have approved the following proposed work programme of new and continuing analysis, subject to availability of resources and endorsed the setting of priorities. Priorities in the work will be assessed by first addressing work in progress. In accordance with past practice in the JWP, work on new areas will be decided as Members come forth with concrete study proposals. The JWP will report again on progress with this new phase of work to its parent Committees in 2001.

Areas for analysis

Transparency

61. The JWP is currently undertaking a limited number of case studies in OECD countries, to document existing mechanisms and practices in relation to transparency and consultation with civil society, and to elicit feedback from civil society organisations on the working of these mechanisms. This work is based on the first of the OECD Procedural Guidelines on Trade and Environment. After assessing the first stage of the studies, future work should build on the outcomes of case studies, and expand the analysis to other OECD countries, including a representative sample of countries using different approaches to transparency and consultation. By focussing on difficulties encountered and approaches which work the best, the exercise would be aimed at drawing lessons for good practices. It should also turn to examine transparency mechanisms and practices in other multilateral organisations dealing with trade and environment issues.

Environmental Effects of Trade Liberalisation

62. The JWP will continue its quantitative and qualitative assessment of the environmental costs and benefits of trade liberalisation. Future work in assessing the environmental effects of trade liberalisation will continue to look at particular sectors, including the environmental effects stemming from changes in relative pricing, technical innovation and changes in resource allocation associated with trade liberalisation. Outreach activities with emerging economies will be undertaken, including a workshop on barriers to trade in goods and services, with a session on 'win-win' sectors, including environmental goods and services.

63. At the sectoral level, the JWP will pursue the project underway, examining the environmental effects of fossil fuel trade liberalisation, in collaboration with an IEA project focusing on subsidies in developing countries and other OECD work on climate change. In particular, it will take advantage of the in-house updating of GREEN to model the environmental effects in terms of emissions associated with shifts in the direction and volume of the fossil fuels trade following the reduction/elimination of trade distorting measures. Also, ongoing work on the effects of the liberalisation of the environmental goods and services industry will be further developed.

64. The JWP will work closely with the Joint Working Party on Agriculture and Environment on the environmental effects of agricultural trade liberalisation. That group is currently outlining the issues and linkages between agricultural trade liberalisation and domestic and global environmental impacts. Issues identified in this process may warrant further development by the JWP. In addition the JWP will also work closely with the Fisheries Committee. In that Committee empirical work is being undertaken on the relationship between government transfers and fishing stocks. The JWP could build on that research in an examination of the environmental effects of trade liberalisation, taking into account work in FAO under the Action Plan for Vessel Capacity Regulation. Work in both areas should include analysis of the environmental effects of the removal of trade distortions, (including subsidies which have that effect). Recognising that the work in the other OECD groups is in its initial stages, the JWP will contribute to and complement, as appropriate, activities in these two groups.

Assessment of Environmental and Trade Agreements

65. The JWP should continue to play an important role in the area of environmental and trade assessments. Several areas have been identified relating to environmental assessment of trade agreements and trade assessment of environmental agreements in which JWP analysis and/or discussion would be productive. First, the JWP should encourage Members to conduct trade and environmental examinations, reviews and follow-up, as outlined in the 1993 Guidelines, with respect to ongoing or future environmental and trade agreements. The role of the JWP should be to provide a forum for governments to share experiences and lessons learned from these assessments, to highlight areas to which attention should be paid in future negotiations and to draw attention to potential areas of conflict as well as potential win-win situations.

66. The second proposal involves advancing the development of the OECD *Methodologies for Trade and Environment Reviews*. The OECD *Methodologies* were developed to give assistance to Members in operationalising the OECD Procedural Guideline on trade and environment reviews. Since the *Methodologies* were developed, OECD Members have gained experience in the review process in relation to domestic policies, as well as discovering common areas of difficulty. The JWP should look beyond Members' assessment to the feasibility and possible scope of multilateral assessment of environmental and trade agreements. This would involve assessing whether for example the OECD *Methodologies* are a sound basis to move beyond national reviews to multilateral guidelines, as well as taking into account work done in other organisations such as NAFTA, WWF International and the European Union, including the latter's current work on sustainability assessment of the new WTO Round. In particular, the timing and range of issues which should be subject to trade/environment analysis should be further developed. Work should also involve testing, e.g. through case studies of assessment methodologies by applying them to components of existing environmental and trade liberalisation agreements. The JWP should, at the appropriate time, discuss and explore the possibility of carrying out analysis on environmental issues in the context of the upcoming WTO negotiations. The JWP will organise a workshop on the state of the art of such methodologies and assessments at national and international level and subsequently draw lessons for future work in the OECD.

Processes and production methods (PPMs)

67. Recognising the work already done by the OECD on PPM issues, as noted in the 1995 *Ministerial Report on Trade and Environment*, the JWP considers PPMs to be an important issue in its future work programme. The JWP will deepen its analysis, including through selected case studies, in particular of PPMs that may have global and transboundary environmental impacts, as well as a review of possible options for dealing with policies and measures underlying PPMs. Member countries are invited to submit relevant examples for analysis.

Multilateral Environmental Agreements (MEAs)

68. The JWP will take account of the ongoing process of development of MEAs and build on analysis already undertaken on the use of trade measures in MEAs for environmental objectives. While recognising that the appropriate set of policy instruments for a particular MEA will be unique, future work could, at the appropriate time, examine approaches involving policy packages including trade and non-trade measures.

Kyoto Protocol and Trade Effects

69. A number of potential trade issues arising from the implementation of the Kyoto Protocol have been identified by the JWP and the group will come back to these issues at an appropriate time when the basic core issues with respect to the flexibility mechanisms are resolved in other fora. Until such time as Member countries make concrete suggestions for work on these trade issues, the group will draw links with the Kyoto Protocol in its ongoing work on how trade barriers such as domestic subsidies and tariffs influence national consumption and trade patterns of fossil fuels.

**ANNEX II
KEY DOCUMENTS DISCUSSED IN THE JOINT WORKING PARTY
ON TRADE AND ENVIRONMENT, 1999-2000**

Key environmental objectives and interlinkages with trade

Uncertainty and Precaution: Implications for Trade and Environment [[COM/ENV/TD\(2000\)114](#)]

Transparency

(*) Transparency and Consultation on Trade and Environment: National Case Studies Volume I [[COM/TD/ENV\(99\)26/FINAL](#)]

(*) National Transparency Case Studies: Round 2 [[COM/TD/ENV\(99\)94/FINAL](#)]

(*) Transparency and Consultation on Trade and Environment in Five International Organisations [[COM/ENV/TC\(99\)96/FINAL](#)]

Synthesis of Case Studies on Transparency and Consultation Practices on Trade and Environment in OECD Countries and the EC [[COM/ENV/TD\(2000\)26](#)]

(*) Implementation of the OECD Procedural Guidelines: Successes and Difficulties [[COM/ENV/TD\(99\)28/FINAL](#)]

Bibliography on Consultation Mechanisms and Practices in Multilateral Fora [[COM/ENV/TD\(99\)27](#)]

Environmental Effects of Trade Liberalisation

Fossil fuels and electricity

Environmental Effects of Liberalising Fossil Fuels Trade: Results from the OECD Green Model [[COM/TD/ENV\(2000\)38](#)]

(*) Available at http://www.oecd.org/ech/index_2.htm

Looking at Energy Subsidies: Getting the Prices Right -- Summary of an IEA Study [COM/TD/ENV(2000)37]

Electricity in Canada, Mexico and the United States: Some Environmental Implications of NAFTA, Summary of a CEC Study [COM/TD/ENV(99)30]

Electricity Trade and the Environment (on Nordic countries' experience) [COM/TD/ENV(99)31]

Environmental goods and services

(*) Environmental Goods and Services: An Assessment of the Environmental, Economic and Development Benefits of Further Global Trade Liberalisation [COM/TD/ENV(2000)86/FINAL]

(*) Environmental Services: The "Win-Win" Role of Trade Liberalisation in Promoting Environmental Protection and Economic Development [COM/TD/ENV(99)93]

Agriculture

Domestic and International Environmental Impacts of Agricultural Trade Liberalisation [COM/AGR/ENV/(2000)75/FINAL]

Production and Trade Effects of Agri-Environmental Policy Measures: Reconciling Trade and Environmental Objectives [COM/AGR/CA/ENV/EPOC(2000)52/REV1]

Assessment of environmental and trade agreements

Services Trade Liberalisation: Assessing the Environmental Effects [COM/TD/ENV(2000)122]

Towards a Methodology for Assessing Environmental Effects of Services Trade Liberalisation [COM/TD/ENV(2000)123]

(**) *Assessing the Environmental Effects of Trade Liberalisation Agreements: Methodologies*, Volume of Proceedings of a Workshop held in Paris in October 1999, OECD, 2000.

(**) The report of the Workshop by the *rapporteur* is available at <http://www.oecd.org/ech/index>. The entire volume of Proceedings is an OECD publication and available for purchase at <http://electrade.gfi.fr/cgi-bin/OECDBookShop.storefront/>