

GLOBAL AGENDA

CANADA'S FOREIGN POLICY AND THE ENVIRONMENT

• FALL 1993 •

Environment and Trade: In Pursuit of Sustainable Development

Canadians have a number of priorities when it comes to the environment. They want clean air, water and land and are concerned over the possible danger to human health posed by pollution. They want special spaces and species protected. They understand the benefits of global environmental security. They also want to protect and expand the number of jobs and other economic activity that Canada's export industries generate. And they want to ensure the sustainable use of renewable resources like soil, fish and forests so that the ability of future generations to meet their needs will not be compromised.

Increasingly, trade and trade measures occupy an important position on the environmental agenda. This has meant that the linkages between trade and environmental policies have necessitated closer attention. Many of Canada's greatest environmental challenges have significant economic implications. Notable examples are the need for effective management of fish stocks and the sustainable harvest of forests. But because the natural resources themselves and the environmental impacts of their use cross Canada's borders, solutions

must be developed collectively by the international community.

In many cases, international solutions will be required for environmental problems. Canada is an important trading nation; a full one-quarter of our wealth results from international trade and three million jobs depend on exports. The nature of any of these international solutions is particularly important because this country must trade to survive. Much of our trade is in environmentally sensitive natural resource industries. Questions are frequently raised, for example, by European and American environmental groups about the environmental soundness of Canadian forest management practices.

Therefore, solutions must serve both our trade and environmental interests. We must ensure that trade policies do not encourage environmental degradation or restrict legitimate environmental action and that environmental policies do not unnecessarily limit our trading opportunities. To achieve this delicate balance we must address several questions:

How can we ensure that trade flows are not disrupted needlessly when governments

introduce programs with legitimate environmental objectives? And how can we guard against protectionism disguised by loose environmental objectives?

Do current trade rules provide governments, acting multilaterally, the flexibility to address serious environmental problems? If not, can any changes be introduced without opening the door to more trade restrictions than environmental protection necessitates?

How can we address the effects of trade liberalization on the environment, and on trade flows, between countries with different levels of environmental protection or enforcement?

How best can we deal with the threat of consumer trade bans led by groups that feel products or processing methods are environmentally "unfriendly"?

Canada has been actively seeking to answer these questions. During the negotiation of the North American Free Trade Agreement (NAFTA), an environmental review was conducted to examine the environmental implications of more open continental trade. NAFTA is

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Technology Transfer, Co-operation and Capacity Building:

Building a Relationship between Sustainable Development and Trade

By Arthur H. Campeau, Q.C.

Canada's Ambassador on Environment and Sustainable Development
Vice-Chair to the Bureau of the UN Commission on Sustainable Development

The United Nations Commission on Sustainable Development (CSD) was created to "review and monitor" the implementation of Agenda 21. However, in June 1993, when the Commission met for its first substantive session, international environment ministers clearly indicated that the CSD should also be a results-oriented body. While the CSD is not an implementing agency, it is expected to be forward-looking as countries strive for progress in the implementation of Agenda 21 and other UN Conference on Environment and Development (UNCED) outcomes.

With this mandate, the Commission has identified the relationship of sustainable development and trade policies as an issue not only of growing global interest but also of direct interest to the Commission's current work in the area of technology transfer and capacity building.

At the June 1992 Earth Summit in Rio de Janeiro, the issues of technology transfer were key points of debate. There is now general agreement that the development and transfer of environmentally sound technologies are critical to developing countries as they strive to achieve the transition to a sustainable development path. Rio also identified local capacity building as an indispensable complement to North-South technology transfer. The Commission is seeking effective progress in both these areas.

Specifically, the CSD's Ad Hoc Working Group on Technology Transfer, Co-operation, and Capacity Building will meet in February 1994 to prepare for the second substantive CSD session. Leading up to this meeting, a sequence of workshops and seminars will have been held to closely review these issues and provide recommendations to the CSD Ad Hoc Working Group.

The first seminar, sponsored by the Organization of American States (OAS), was held September 20-21, 1993, and focussed on hemispheric technological co-operation. One of the more intriguing aspects of the meeting was the avowed intention of a number of Latin American and Caribbean countries to aim for a "California level" of environmental regulations - which are some of, if not the strongest regulations in North America - for their intended industrial installations. This was in anticipation of an expanding North American free trade zone within the next decade.

Delegates to the seminar called attention to a number of factors inhibiting the transfer of environmental technologies and proposed methods for their alleviation:

- new funding mechanisms that specifically address technology transfer;
- information centres and networks;
- training programs to develop environmental professionals and managers;

- technical assistance for evaluation and application of technologies; and
- a regional co-ordinating agency for technology transfer.

On October 13-15, 1993 the UN Conference on Trade and Development (UNCTAD) and the Government of Norway hosted a workshop in Oslo on the transfer and development of environmentally sound technologies. The meeting addressed two broad issues identified by UNCTAD's Ad Hoc Working Group on the Interrelationship between Investment and Technology Transfer:

- issues involved in the generation, transfer and diffusion of environmentally sound technologies that have an impact on competitiveness and development; and
- policies and measures for the promotion, development, dissemination, and financing of environmentally sound technologies, particularly in developing countries.

As a result of the Oslo meeting, two concrete proposals were made:

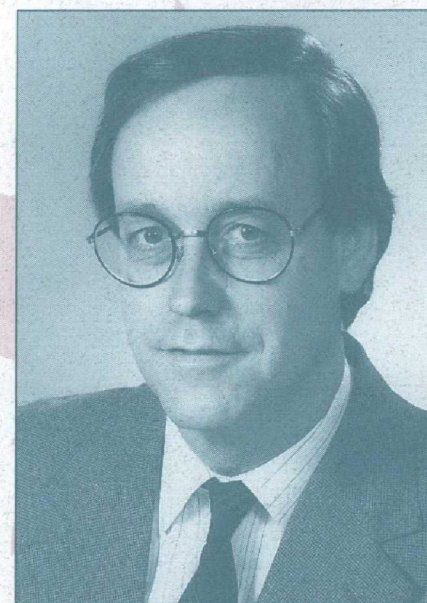
1. a new venture capital fund for greenhouse gas mitigation ; and
2. an environmental technology assessment service to be operated out of the Paris office of the UN Environment Program.

Finally, from November 17-20, 1993, representatives from appropriate geographic regions and organizations

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Two Views on Issues of Trade and the Environment

The trade and environment debate has often been portrayed as a contest between two polarized points of view: those of industry and environmental groups. Are these competing priorities or should they be seen as complementary? For a better understanding of the concerns of both "sides," GLOBAL AGENDA interviewed respected representatives of each. Geoffrey Elliot, Vice-President, Corporate Affairs, at Noranda Forest Inc., and Janine Ferretti, Executive Director of Pollution Probe, responded to a series of questions surrounding this debate. While readers will be left to their own conclusions, our respondents indicated that, despite fundamentally different assumptions, they share many goals and believe that there is good potential for progress. [The views expressed below are those of the interviewees and do not necessarily reflect the opinion of the Department of Foreign Affairs and International Trade.]



Geoffrey Elliot,
Noranda Forest Inc.

Environmental standards and freer trade: complementary or contradictory?

Both environmental protection and the expansion of international trade are important public policy objectives. I am convinced that the two are indeed complementary. It is not at all necessary to damage the international trade system in order to achieve very real environmental progress at both national and global levels.

Canada is a major trading nation and close to half the goods we

produce are exported. The enormous progress achieved in improving the quality of life of Canadians during the past several decades is directly attributable to the generation of societal wealth through increased exports. Revenue from exports has provided the means to establish and maintain the high personal incomes and generous social policy infrastructure we all take for granted as part of being Canadian. So our policy-makers have a special duty to be extremely cautious about imprudent changes in trade rules that might make it easier for other countries to raise new protectionist barriers against Canadian exports.

Having said that, I believe there is enormous scope for finding international solutions to global environmental problems. The UN Climate Change Convention and the Montreal Protocol are two examples. None of these agreements are perfect, from either an environmental or a trade perspective, but they do represent progress.

The evolution of thinking on trade and the environment

Environment and trade was not an issue five years ago. Today, environmental advocacy groups and some environmental policy

bureaucrats are pressing for changes in international trade rules to exempt trade-distorting measures from challenge if the stated purpose of such measures is to protect the environment. Some even advocate legal recourse to unilateral trade sanctions to "punish" bad environmental performance.

Canada would be a big loser if such changes were implemented because our trade dependence makes us far more vulnerable than the U.S. or the European Community. In the end such changes in trade law would only open new loopholes for U.S. special interests to protect their markets and harass their competitors. Moreover, such rule changes could provide the U.S. and the EC with the means to impose their particular environmental agendas on the rest of the world, a sort of environmental imperialism. Although these proposals for trade law changes originate mainly in the U.S. and Europe, it remains distressing that some naive but respected Canadian environmental groups also support them.

My own view is that Canada should work on two tracks. The first should be to protect the

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integrity of the existing trade law contract, which already provides ample scope for individual countries to protect their domestic environments, as well as to challenge foreign measures that are damaging to Canadian economic and trade interests. The second track would be to promote the negotiation of global environmental agreements to resolve global problems. Such agreements should be based on globally agreed standards of environmental protection.

Challenges facing policy-makers

The greatest challenge is to promote substantial progress toward resolving real global environmental problems (e.g. climate change, ozone depletion, tropical deforestation) without, at the same time, subverting the integrity of the trade system to Canada's disadvantage.

International trade law is more than a set of rules. The GATT is a negotiated contract that provides for the exchange of benefits of real economic value on the basis of reciprocity and mutual advantage. It may be desirable to change some of the rules and practices to introduce a higher level of transparency in certain GATT processes. But an important test of any changes is to examine where the burden of compliance with any new rules will fall. If new rules are proposed that create an uneven burden or advantage among contracting parties, this will risk unravelling the overall balance and reciprocity in the trade contract and require fundamental renegotiation of GATT trade concessions. It seems to me that it would be in Canada's best interests to ensure that this does not happen.

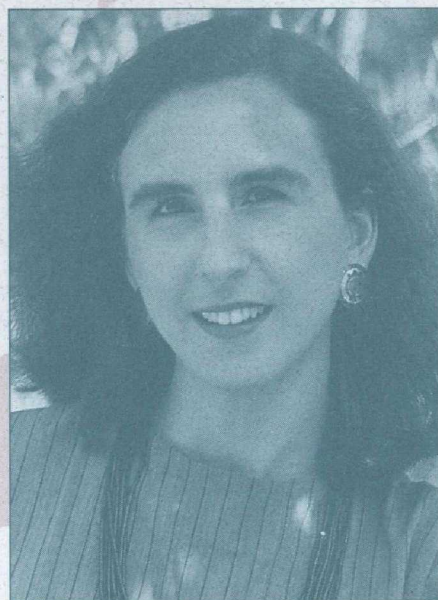
Areas for progress

I am confident progress will be made. There are important environmental problems that need to be dealt with, and I believe there is a political will to resolve them. It would be useful for all concerned to acknowledge that. The other prerequisite for real progress is the need for participants to jettison the sanctimonious hierarchy of virtue which attaches a higher level of virtue to environmental progress than to economic progress. Both are critical to ensuring the quality of life of Canadians. Implicit in all this is the particular vulnerability of Canada and Canadians if this is not done right. Limited available resources have to be assigned first to the most important problems. Secondly, a conscious effort has to be directed at finding solutions that provide net benefit to Canadians, taking into account both environmental and economic costs. 🍁

Environmental standards and freer trade: complementary or contradictory?

The protection of the environment and sustainability of life is far more important than any other aspect of human activity. Nonetheless, this doesn't mean that trade or environmental protection has to be done to the exclusion of the other. There's enough room to ensure that trade is done in a fair and equitable manner that doesn't degrade the environment. That certainly is the window of opportunity and area of focus where people concerned with trade and those concerned with the environment can come together.

That being said, one of the most fundamental concerns of environmentalists is the possibility that trade agreements will constrain the setting of environmental standards by various jurisdictions. We know that the secret to environmental progress has been the leap-frogging that has occurred among different jurisdictions. We often need to look at where the innovations are occurring in other countries, provinces and states. The concern is that trade agreements will dampen that leap-frogging, either by forcing standards down to the lowest common denominator or, even more likely, in a kind of chilling of



Janine Ferretti,
Pollution Probe

progress. The challenge is to ensure that efforts to put fairness in the trading regime don't inadvertently or intentionally impede environmental progress. That's a real concern. Just as people with trade interests are concerned that protectionism will be cloaked in environmental garb, environmentalists are concerned that anti-environmental interests are cloaking themselves in free trade garb.

The evolution of thinking on trade and the environment

We feel there is an area where trade interests and environmental interests can come together to work out policies that are not damaging to the environment and at the same time ensure there is an opportunity for trade in a positive manner, trade which contributes to sustainable development. Nothing really can happen on Earth unless there is sustainability of life, unless we can find economic systems and activities that nurture and protect the environment and therefore ensure that people can go on living prosperous and productive lives. Unless we have that environmental base there, we won't have anything. That's why it's not just more important, but fundamental, that there be environmental protection and a life-sustaining environment. Once you have that, then you can go on and build economic and human activities. Any trade that degrades the environment is threatening not just the environment but the livelihood of people and societies. Surely that runs counter to what we as a society are engaged in.

Challenges facing policy-makers

The greatest challenges are to operationalize some of the assumptions and principles that people have been using. For example, there is some level of recognition that in order for trade to have less environmental impact, not only do trade agreements have to have environmental safeguards, but prices of goods and services being traded need to reflect full environmental and social costs. One of the biggest challenges is to incorporate such full-cost accounting. Unless prices adequately reflect the internalized costs, there will be a significant detrimental effect.

The other related challenge is to recognize the imperative of environmental protection and act upon it. There are some things we cannot afford to lose at any cost, such as biodiversity or the protection that the ozone layer offers. The notion of trade-offs is not very useful in the context of trade and the environment. Preserving the planet and the people who live on it are the priority. Public surveys are showing that despite the recession, environmental concerns are still there, they are just temporarily being eclipsed by economic concerns. There is room to ensure that as much as possible environmental and economic priorities can be met simultaneously. There is a lot of room for that. Ground that hasn't been covered yet. But at some point in time we come to the point of imperatives. That's when the first priority must be the survival of the planet.

Areas for progress

We are certainly on the road where people in the environmental and trade communities are able to recognize and understand each other's language and priorities. But at the end of the day there will be some conflict of interest, which will not be readily removed. What needs to happen is to clearly mark the area of discussion, which is the well-being of people and other inhabitants of this planet. That well-being requires that some economic and environmental priorities need to be met. The challenge is to identify how those priorities and needs can be met in a mutually supportive manner. When they cannot be, then at the end of the day, when the issue really is an environmental issue that is fundamental to the survival of the planet, then that imperative must guide the development of trade policy.

At a more practical level, the issue is one of full-cost accounting. We have to start embarking on this route and drop the excuse of waiting until we have all the details right. It's a difficult thing to do, but unless we start somewhere, we'll never get there. I think the first step has to be to move into the application of full-cost pricing, perhaps on a sector-by-sector basis, recognizing the fact that there are some things that cannot have a price tag attached to them. We need to start tackling trade and environment issues at that level and not just the level of theory. The Organization for Economic Co-operation and Development, to its credit, has made some headway on moving to the practical level. 🍁

The NAFTA Environmental Review Process

Purpose of Environmental Reviews

Long utilized to improve planning and decision making related to projects, environmental reviews are now an important tool for ensuring that environmental concerns are given early consideration in the formulation of government policies.

Policies can rarely be subjected to the same type of quantitative and predictive analyses that are associated with the assessment of projects. However, while environmental reviews of policies differ from those of projects, the fundamental purpose remains the same: to ensure the systematic consideration of environmental factors throughout the planning and decision-making stages.

The NAFTA Environmental Review Committee

The NAFTA is the first trade agreement to undergo an environmental review. The review process examined concerns related to the potential environmental effects of the Agreement from four different perspectives: first, the implications of the NAFTA provisions of particular relevance to environmental concerns; second, the potential impact of the NAFTA on Canada's environment; third, concerns that Canadian industry could migrate to take advantage of less stringent environmental regulations elsewhere; and

fourth, the mechanisms that would permit the relationship between trade and the environment to continue to be addressed following the signing of the NAFTA.

Responsibility for conducting the review was assigned to an interdepartmental NAFTA Environmental Review Committee. As provided for in their mandate, Review Committee representatives collected and reviewed literature from both Canadian and foreign sources, consulted with provincial and non-government representatives, interviewed U.S. and Mexican officials, and met regularly with key members of Canada's NAFTA negotiating team. In addition, the Review Committee continuously reviewed the evolving draft of the NAFTA and provided input for Memoranda to Cabinet on the environmental content of the negotiations.

Consultations with Provincial and Non-Government Representatives

Input from provincial and non-government representatives was actively sought throughout the negotiations. Consultations were held with the Federal-Provincial Committee on the NAFTA (CNAFTA), members of the International Trade Advisory Committee (ITAC) and the 15 Sectoral Advisory Groups on International Trade (SAGITs). In addition, three special

sessions were organized with representatives of the business, environment, labour and academic communities. Environmental organizations were particularly active in contributing their views, both orally during the special sessions and in subsequent written submissions.

The consultations provided an ongoing opportunity to consider Canada's environmental priorities for the NAFTA and to discuss the nature and scope of the environmental review. Information gained during meetings with provincial and non-government representatives greatly assisted the Review Committee in identifying the major environmental concerns that needed to be addressed in both the NAFTA negotiations and the environmental review.

Consultations with the NAFTA Negotiators

A key aspect of the environmental review process was open and frequent access by Review Committee members to all levels of Canada's NAFTA negotiating team. Review Committee meetings with the negotiators had four principal objectives: to obtain detailed information and analyses on the issues, options and provisions under negotiation; to provide an initial screening for potential environmental implications of the Agreement; to heighten the negotiators' awareness of

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environmental concerns; and to discuss the potential environmental effects of the different negotiating options.

Conclusions

The process associated with the NAFTA environmental review provided clear evidence of the benefit of taking environmental considerations into consideration at every stage of the negotiations. Frequent and substantive contact between the Environmental Review Committee and both environmentalists and the negotiators played a critical role in optimizing the environmental content of the NAFTA and in ensuring that the full range of environmental concerns was addressed in the environmental review.

The NAFTA environmental review process has established a benchmark which may serve for future negotiations. 🍁

Technology Transfer continued from page 2

met in Cartagena, Colombia, to discuss a general strategy for promoting technology transfer. The seminar, co-sponsored by Colombia and the United States, focussed on technology, co-operation and capacity building, as well as the development of a model for use at the February intersessional meeting of the CSD Ad Hoc Working Group.

The focus of the discussions was on problem solving - from diagnosis to remedy - with the goal of prevention of environmental damage and the promotion of sustainable development. Canada is seeking to ensure that the CSD Ad Hoc Working Group takes the same pragmatic approach, with a substantial focus on exchanges between technocrats and practitioners, with respect to experiences in transferring technologies in a number of specific sectors.

Technology transfer, co-operation, and capacity building are central issues in the CSD's efforts toward sustainable development and the growing relationship between environment and trade policies. Workshops and seminars such as

these provide the opportunity for Canada to demonstrate strength and leadership by moving the agenda forward and helping to craft the results. They also provide the opportunity to present Canada's consultative problem-solving methods to colleagues from other nations.

Environmental remediation and protection, and technologies that minimize or alleviate the environmental impact of various production methods are issues of growing importance in the relationship between environmental and trade policies. They are also the basis of the rapidly expanding environmental goods and services sector.

Canada is committed to being a leader in this area, especially in the development of environmentally sound technologies and innovative solutions to environmental and development challenges. Canada will actively participate in the Commission's work on technology transfer, co-operation and capacity building, especially as it relates to the relationship between sustainable development and trade. 🍁

Environment & Trade continued from first page

the first international trade agreement to refer to the environment, and its "side agreement", the North American Agreement on Environmental Cooperation, promotes improved domestic enforcement and enhancement of environmental standards in all three countries.

On another front, much effort has been devoted to achieving international consensus on the definition of sustainable forest practices. From a trade perspective, an international convention that secures such a definition will help Canadian forest products overcome market access threats resulting

from consumer boycotts and foreign regulations and labelling programs.

In addition to our independent efforts, Canada is pursuing these very important issues in many international organizations. Most noteworthy are discussions at the Organization for Economic Cooperation and Development and the General Agreement on Tariffs and Trade where the underlying policy questions and their relationship to the international trading system are under active discussion. 🍁

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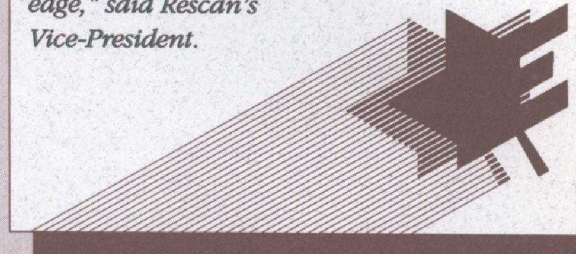
Environmental Industries Sector

The world market for environmental products and services was estimated to be about US\$275 billion in 1991. This figure is expected to exceed US\$400 billion by the end of the decade. The Canadian market accounts for about 3 percent of the world market and is expected to grow 10 percent per year over the next few years. Currently, there are over 350 Canadian firms actively exporting either environmental products or environmental services, and as many as 1200 firms have export potential.

Rescan Consultants Inc., a 1993 Canada Export Award Winner, is one Canadian firm offering environmental consulting services such as environmental audits and site assessments, waste management planning, occupational health and safety, oceanographic services, and hazardous waste treatment.

Founded in 1981, Rescan has international clients that include resource companies, governments, international corporations and financial institutions in Chile, Peru, Brazil the United States, Turkey, Indonesia and the Philippines, to name a few countries.

"The respect Canadian corporations enjoy in the international marketplace provides us with a competitive edge," said Rescan's Vice-President.



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