



**United Nations
Conference
on Trade and
Development**

Distr.
LIMITED

TD/B/WG.6/L.6/Add.1
8 November 1995

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Ad Hoc Working Group on Trade,
Environment and Development
Third session
Geneva, 6 November 1995
Agenda item 5

**DRAFT REPORT OF THE AD HOC WORKING GROUP ON TRADE,
ENVIRONMENT AND DEVELOPMENT ON ITS THIRD SESSION**

Rapporteur: Mr. M. Shaheedullah (Bangladesh)

Addendum

AGENDA ITEMS 2 AND 3

Speakers: Mexico
Venezuela (for Latin American and Caribbean Group)
Cuba

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated **by Friday, 17 November 1995 at the latest** to:

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Chapter I

**ENVIRONMENT, INTERNATIONAL COMPETITIVENESS AND DEVELOPMENT:
LESSONS FROM EMPIRICAL STUDIES**

(Agenda item 2)

and

**NEWLY EMERGING ENVIRONMENTAL POLICIES WITH A POSSIBLE
TRADE IMPACT: A PRELIMINARY DISCUSSION**

(Agenda item 3)

1. The representative of Mexico suggested that the Chairman's summaries from the first two sessions of the Working Group should form an integral part of the final report of the Group.
2. On the question of competitiveness, her delegation wished to make the following observations:
 - (a) It was clear that export competitiveness was determined by a number of factors, such as differences in capital cost, technologies, infrastructure, taxes on research and development.
 - (b) The final report of the Group should reflect the fact that in OECD countries environmental policies had little effect on competitiveness. The Group should reiterate one of the conclusions contained in the report on trade and environment presented to the second session of the Council of Ministers of the OECD, which firmly rejected demands made on certain occasions to introduce so-called green countervailing duties or any other form of protectionist measures incompatible with WTO agreements, to compensate for the negative effects of environmental policies on competitiveness.
 - (c) Competitiveness could not be studied only at the level of isolated sectors and firms but should also be analyzed at the country level, which included losing and gaining sectors. This applied not only to those sectors and firms that found it necessary to adapt to new environmental requirements, but also to those sectors and firms that were planning to supply new markets for equipment, services and know-how calling for new environmental technologies. The analysis

of the impact of new environmental requirements on competitiveness should cover all sectors and both negative and positive impacts should be taken into account. She supported the conclusion of the report of the secretariat that for achieving a given environmental objective, the question was not only whether firms lost or gained competitiveness, but also whether these effects could be mitigated by more cost-effective environmental instruments or policies.

3. In relation to the level of profitability and efficiency of adaptation in certain countries to external environmental policies and requirements, she said that complying with external environmental requirements could be far from profitable, particularly when they affected PPMs and were based on circumstances, needs, and priorities, as well as the environmental and social conditions of the country imposing these measures. In this context, she suggested that the idea of proportionality as well as the concept of necessity and effectiveness should be expanded and incorporated into the formulation of environmental policies.

4. With respect to competitiveness effects at the national level, countries whose firms were forced to comply with foreign standards or requirements could be particularly vulnerable to new environmental requirements, because of both external and domestic factors. She stressed the importance of factors such as sectoral composition, the firm structure and infrastructural limitations, as well as the difficulties in gaining access to capital and technology to make the necessary adaptations.

5. As for possible solutions, she suggested that the Group consider the ideas set forth in paragraphs 73 to 75 and 142 to 146 of the secretariat report (TD/B/WG.6/10), particularly the identification and determination of positive measures and incentives.

6. With regard to MEAs, she suggested that the concept of proportionality be discussed in the context of the use of trade measures and also that the recommendations in paragraph 147 of the report be explored.

7. Referring to the report on newly emerging environmental policies with a possible trade impact (TD/B/WG.6/9), she stressed that transparency and consultations in the formulation of environmental policies were fundamental to the adoption of such instruments. Her delegation was concerned about voluntary measures and environmental management systems, including ISO 1400, and their impact on markets. In this area it would be helpful to consider mechanisms for enhancing the participation of developing countries in the formulation of such

new measures so that concerns regarding quality and responsibility were not excluded from these major instruments.

8. The spokesman for the Latin American and Caribbean Group (Venezuela) said that Latin American and Caribbean countries had taken a pro-active stand and were moving towards improved environmental management, based on domestic environmental and developmental conditions and priorities. They had set priorities for themselves, based on the development potential of each country. He was concerned at the emergence of more stringent environmental requirements, especially those based on process and production methods (PPMs), since these multilateral standards were at variance with the international trade system as regulated by the WTO.

9. With respect to competitiveness and the size of the companies, he said that large firms in the region found it easier to comply with stringent environmental requirements than small and medium-sized firms and that it was necessary to implement positive measures at the national and international levels. It was necessary to analyse the potential environmental benefits to be derived from the removal or reduction of trade-distortive subsidies.

10. Concerning MEAs, he saw a need to analyse the trade and competitiveness effects on developing countries as a whole and on a case-by-case basis. Although MEAs were important in tackling global environmental problems, the economic effects on developing countries could be significant. His Group supported the idea of implementing positive measures, such as the Multilateral Fund under the Montreal Protocol. This pointed to the need for interim evaluations and other positive measures to assist developing countries in meeting multilaterally-agreed targets.

11. Concerning the newly emerging environmental policy measures that might have negative or positive effects on trade, he observed that newly emerging policy instruments were increasingly based on life cycle analysis involving the PPMs issue and were mostly voluntary in nature. The measures based on recycled content provisions were important for a number of Latin American countries. Also some of these measures might affect products of export interest to developing countries, but there was uncertainty about their trade and environmental effects since developing countries did not know how the business sector and consumers would react.

12. Finally, he noted that there were no well established mechanisms for notification and consultation with trading partners, and improvements were necessary in this area as well as in the matter of international cooperation.

His Group supported the idea of notifications and ex-ante transparency, and technical and financial assistance on a multilateral and bilateral basis.

13. The representative of Cuba, referring to the discussions on competitiveness and environmental policies, said that most of the difficulties faced by the developing countries in adapting to strict environmental measures arose on account of deteriorating trade relations and lack of financial resources, together with the protectionist and discriminatory measures sometimes adopted in the developed countries. There was a need for more studies on the economic impact of environmental measures and, in particular, those affecting products of interest to developing countries. UNCTAD's technical assistance programme on trade and environment was important in helping countries to understand environmental policies and to ways to reduce the negative impact on the exports of developing countries. He welcomed the work done so far and expressed thanks to UNCTAD, UNEP and the WTO for their support in a national seminar on trade, environment and development held in Havana in July 1995. He called upon donor agencies to provide financial resources for this work.

14. Finally, he said that Cuba would continue to make great efforts to safeguard the environment despite its difficult situation as a result of the economic blockade imposed on Cuba by the United States of America, which was being maintained even though it had been rejected in a recent resolution adopted by the vast majority of countries in the United Nations General Assembly.