

WORLD TRADE ORGANIZATION

WT/CTE/W/221

24 January 2003

(03-0432)

Committee on Trade and Environment

Original: English/
French

INITIAL ENVIRONMENTAL ASSESSMENT: TRADE NEGOTIATIONS IN THE WORLD TRADE ORGANIZATION

Submission by Canada

Paragraph 33 of the Doha Ministerial Declaration encourages Members to share expertise and experience with environmental reviews at the national level with other WTO Members. Canada has provided information in past meetings of the Committee on Trade and Environment on the development and implementation of its *Framework for Conducting Environmental Assessments of Trade Negotiations*.

On November 22, 2002, the Government of Canada released its *Initial Environmental Assessment of the World Trade Organization (WTO) Negotiations*. This is the first of three reports that will be prepared for the Strategic Environmental Assessment, which will help negotiators to better integrate environmental considerations into the negotiating process. The *Initial Environmental Assessment* was released to the Canadian public for a sixty-day public comment period. Comments received will be used to help prepare the next report -- the Draft Environmental Assessment. The Government of Canada will continue to seek input from Canadians throughout the assessment. The Final Environmental Assessment report will be released after the conclusion of the Doha Round of WTO negotiations in 2005.

This document reproduces the Executive Summary and the Conclusion from the *Initial Environmental Assessment*. The complete version of the Canada's *Initial Environmental Assessment of the World Trade Organization (WTO) Negotiations* can be accessed at the following Government of Canada website address: <http://www.dfait-maeci.gc.ca/tna-nac/consult1-en.asp#wto>

INITIAL ENVIRONMENTAL ASSESSMENT: TRADE NEGOTIATIONS IN THE WORLD TRADE ORGANIZATION

I. EXECUTIVE SUMMARY

1. The Government of Canada is committed to sustainable development. Mutually supportive trade and environmental policies can contribute to this goal. Environmental assessments of trade negotiations is one mechanism for doing so.

2. In keeping with a *1999 Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals*, Canada is conducting an environmental assessment of the Doha Round of trade negotiations at the World Trade Organization (WTO). This work is being guided by the *Framework for Conducting Environmental Assessments of Trade Negotiations*, which provides an analytical process for identifying and addressing likely and significant environmental impacts. The environmental assessment (EA) is intended to help trade negotiators understand the environmental implications of trade policy and to assist them in integrating environmental considerations as trade negotiations progress.

3. Following the issuance of the Notice of Intent to conduct the environmental assessment, we have undertaken an Initial Environmental Assessment which identifies the potential sectors or activities that may be affected by new WTO negotiations. Its principal aim is to scope out the main environmental issues that might arise as a result, and which will be given more rigorous analysis in the third and final stages of the process (Draft and Final EAs).

4. Following the four-staged analytical methodology, the Initial EA examines the coverage of negotiations and their overall economic relevance in the Canadian context. It identifies the *likely* environmental impacts (positive and negative), if any, of trade-induced economic and regulatory changes, and assesses their *significance*. The Initial EA also briefly identifies mitigation and enhancement measures.

5. In undertaking the EA, we recognize that economic growth will continue to influence agricultural and industrial activity, irrespective of Canadian objectives to liberalize or take action in a certain area. We also recognize that trade liberalization outside the WTO context will continue through Canada's regional and bilateral free trade agreements and negotiations. While we realize the challenge in isolating the incremental economic effects attributable to trade liberalization per se, the EA will focus only on the economic activities and trade policy changes resulting from negotiations in the WTO.

6. The Initial EA takes into account the fact that Canada currently has in place a framework of policies and legislation for the protection of the environment. Canadian environmental policy and legislation will not be affected directly by the negotiations at the WTO, and the negotiations will not limit the ability of Canadian governments to regulate for environmental protection in the future.

7. The current analysis covers the seven areas of negotiation that were launched in Doha: agriculture, non-agricultural market access, services, rules, trade and environment, wines and spirits registry, and dispute settlement. Only when an agreement to negotiate an issue is obtained will the issue be included in an environmental assessment. Therefore, other subjects often attached to trade and environment discussions in general, but not specifically mandated for negotiation in the context of the Doha Round (e.g., precautionary approach, regulation of genetically modified foods, labelling for non-product related process and production methods) are not covered by the EA as there is no agreement to negotiate on them. At the WTO's Fifth Ministerial Conference in Cancun in September 2003, WTO Members will make a decision on whether to expand the negotiation mandate to include

inter alia any of the so-called Singapore issues of trade and investment, trade and competition policy, transparency in government procurement and trade facilitation. Until there is a negotiation mandate for them, they remain outside the scope of this EA.

8. Scenarios are used in several sections of the Initial EA as tools for analysis, and do not reflect expected outcomes of the negotiations or Canada's objectives in the negotiations.

A. FINDINGS OF THE INITIAL ENVIRONMENTAL ASSESSMENT

9. The analysis performed for this Initial EA suggests that in the aggregate, any effects the new WTO negotiations may have on the Canadian environment are likely to be minimal on account of one or a combination of three reasons: (1) further trade liberalization affects only a small proportion of Canada's trade (the bulk already being subject to NAFTA and other Free Trade Agreements); (2) federal and provincial environmental legislation that can mitigate negative effects is, or will soon be, in place; (3) some negotiations that seek clarification in procedures or establish a system of notification and registration will not directly translate into increased production or trade.

(a) Agriculture

10. The Doha Declaration calls for negotiations aimed at: reduction, with a view to phasing out, of all forms of agricultural export subsidies; substantial reductions in trade-distorting domestic support; and substantial improvements in market access. As any final agreement will be the result of negotiations between parties with divergent interests, it is impossible to accurately ascertain the outcome of the negotiations.

11. For the Initial EA, an abstract scenario envisioning a 50 per cent reduction in the current levels of the three trade-distorting agricultural policies, and the continuation of Canada's supply management policies, has been used to evaluate the potential environmental impacts of the outcome of these trade negotiations. This scenario is used as an analytical tool and is not a statement of Canada's objectives, nor a speculation regarding the possible outcome of the negotiations.

12. Reductions in tariffs, trade-distorting domestic support and export subsidies will likely lead to an increase in trade and in world prices for cereals and red meat. It is expected that moderate increases in world prices for cereals and other crops would slightly increase Canadian production levels. For livestock, reduced tariffs and expanded Tariff Rate Quotas (TRQs) would help raise prices, but given higher feed costs, would result in small increases in beef production and modest increases in pork production.

13. Overall, the initial findings suggest that further agricultural liberalization is not likely to cause significant environmental damage since Canada's agriculture is of relatively low intensity. World prices and production levels in the Canadian agri-food industry would likely experience modest increases, both in the aggregate and for most commodities. Trade liberalization is also expected to have secondary environmental effects on food processing and transportation. It should be noted that federal and provincial environmental legislation is currently in place, and new environmental policies and initiatives are planned for the near future. As well, under the current rules of the WTO Agreement on Agriculture, countries can institute and fund programs with environmental objectives without limitations as long as those programs are not trade-distorting.

(b) Non-agricultural Products

14. For the Initial EA, an overall tariff reduction of 50 per cent is used as an abstract benchmark to illustrate the potential economic impact of the Doha Round. This scenario is intended to be neither a reflection of Canada's objectives nor a prediction of the possible outcome of the negotiations.

15. Current analysis focuses on those sectors where liberalization to date has not been as significant or as comprehensive as others and which, therefore, hold the most immediate potential to generate future incremental trade flows as a result of new substantial liberalization. These sectors are chemicals; fertilizers; environmental goods; fish and fish products; forest products (including both paper and wood); and non-ferrous metals.

16. The environmental impacts of economic changes expected under the 50 per cent scenario are expected to be minimal in the aggregate. Furthermore, only a small portion of Canada's exports would be affected by liberalization in these negotiations (the preponderant share of trade being subject to NAFTA and other FTAs). More generalized environmental effects (e.g., related to the transportation industry) are also considered to be relatively minor. As is the case in agriculture, there are mitigating factors, including federal and provincial legislation, either in place or being planned to provide for environmentally responsible and sound harvesting or manufacturing, particularly in sectors where liberalization holds the most immediate potential to generate future incremental trade flows.

(c) Services

17. Trade in services is not restricted by the use of tariffs and is not easily measured. Thus, it is particularly difficult to isolate the environmental impacts that liberalization might have in this area. Barriers to trade in services may include such things as: requirements for local partners, foreign ownership restrictions, residency requirements, and opaque or non-transparent rules/regulations. The potential for the General Agreement on Trade in Services (GATS) to have positive or negative environmental effects will depend on the extent and magnitude of growth stimulated by further liberalization of GATS commitments. A clear picture will emerge once initial offers are finalized in March 2003. Therefore, a more detailed analysis may be needed with respect to some services as the GATS negotiations proceed.

(d) Rules

18. Negotiations to clarify or improve existing rules may not translate directly into changes in the pattern or volume of trade, but clearer rules are expected to contribute to predictability and stability in the trading system. Generally, subsidy disciplines may be considered win-win but the extent of the beneficial impacts of subsidy reduction on the environment will depend on the existence of appropriate environmental policies and regulations. Clarifying anti-dumping disciplines could limit the inconsistent and uneven application of anti-dumping measures, while ensuring that such measures remain an effective response to the injurious effects of dumped imports. This will strike an appropriate balance with respect to their environmental impact.

19. Meanwhile, clarification and improvement of disciplines relating to regional trade agreements are not seen to result in any trade-induced economic changes; therefore, there will be no direct implications on the environment.

(e) Trade and Environment

20. Taken together, the various elements on environment and sustainable development in the Doha Declaration represent a significant effort on the part of the WTO Members to take environmental aspects of the negotiations into consideration.

21. The mandate for negotiations on the WTO and Multilateral Environmental Agreements (MEA) relationship is limited, and the outcome will not affect the balance of rights and obligations of Members or affect market access. Results are not expected to generate new economic activity.

22. As to procedures for regular information exchanges between MEA Secretariats and the relevant WTO Committees, and the criteria for the granting of observer status, the outcome of negotiations in this area will be an administrative process. Results will not generate any new economic activity in Canada. These negotiations are expected to promote coherence between the multilateral trade system and international environmental governance.

23. Negotiations on environmental goods and services sector will be taken up respectively under non-agricultural market access and services negotiations. These two sectors are being factored into the environmental assessment of non-agricultural market access and services negotiations.

(f) Wines and Spirits Registry

24. Negotiations to establish a multilateral system of notification and registration of geographical indications for wines and spirits will contain information on which geographical indications are protected in a given country. It is not intended to create new obligations, create administrative burdens, or affect the rights of Members. The registry is not expected to translate into increased production or trade.

(g) Dispute Settlement

25. The Dispute Settlement Understanding (DSU) negotiations address the rules and procedures by which disputes are managed and are aimed at increasing the effectiveness of the dispute settlement mechanism. A more effective dispute settlement mechanism will contribute to the overall objectives of the WTO, including the objective of sustainable development, by better governing Members' relations in the field of trade and economics.

B. NEXT STEPS

26. The next step of the EA process is the Draft EA, which will focus on the environmental issues raised in the Initial EA that require further analysis. The completion date of the Draft EA will depend on developments in the negotiations.

27. As Canada will be proactive in the negotiations and will be developing further proposals in these areas, further analysis will be required of negotiations in agriculture and industrial market access, services, and rules (as specific elements of the mandate are further clarified) and certain aspects of trade and the environment. More rigorous analysis will be undertaken, as appropriate, in the Draft and Final Environmental Assessments.

28. No further analysis will be required in the areas of the multilateral registry for wines and spirits and dispute settlement.

29. Positive or negative environmental effects that may result from further trade liberalization may either be enhanced or mitigated by current environmental legislation and measures already in

place in Canada, which have promoted environmentally responsible and sustainable production or manufacturing. Canadian governments will maintain their ability to adopt environmental policies and legislation in order to either enhance positive or mitigate negative environmental effects that may result from trade liberalization.

30. The Government of Canada welcomes comments on this Initial EA. Public consultations are an integral part of the EA process and will be undertaken throughout the process. Comments can be sent to: consultations@dfait-maeci.gc.ca.

II. CONCLUSION

31. From this Initial EA, we may conclude the following:

- (a) Overall, the environmental impact of production changes resulting from trade liberalization in agriculture would likely be minimal. Furthermore, in the near future, government policy (i.e., the implementation of the APF) – in line with citizen expectations – will increasingly ensure that agriculture is produced in an environmentally responsible way. Already, more rigorous farm environmental regulations have been implemented in several provinces. Thus, the potential environmental impacts of the economic changes flowing from the 50 per cent liberalization scenario, if any, are expected to be minimal considering: the limited production changes expected; the federal and provincial environmental legislation currently in place; and, the new environmental policies planned by AAFC for the near future.
- (b) With respect to non-agricultural market access, the overall economic impact of the new round of negotiations is not expected to have likely and significant environmental impacts. Over the course of the last few trade rounds, Canada has already made accommodations to the demands posed by new liberalization adjustments. While further growth is expected as a result of the new WTO negotiations, the net effect is expected to be incremental. In the chemicals, forestry, fisheries, fertilizers, and non-ferrous metals sectors, environmental measures and practices are already in place to provide for environmentally responsible and sound harvesting or manufacturing.
- (c) A more detailed analysis may be needed with respect to some services as the GATS negotiations proceed.
- (d) Negotiations to clarify or improve existing rules may not translate directly into changes in the pattern or volume of trade, but clearer rules are expected to contribute to predictability and stability in the trading system. Further analysis will be required as the issue-identification phase of the negotiations is completed and specific elements of the mandate are further clarified.
- (e) The mandate for negotiations on the relationship between WTO rules and specific trade obligations in MEAs is limited and the possible outcome of the negotiations will not affect the balance of rights and obligations of Members or affect market access. The outcome of negotiations on procedures for regular information exchanges between MEA Secretariats and the relevant WTO Committees and on the development of criteria for granting observer status to MEA Secretariats will not translate into any new economic activity in Canada.

- (f) Negotiations to create a multilateral wines and spirits registry will result in an informative tool to facilitate the protection of geographical indications for wines and spirits. Its establishment will not translate directly into increased production or trade.
- (g) A more effective dispute settlement mechanism will contribute to greater predictability in the trading system, thereby encouraging greater trade that will likely increase economic activity. Activity that leads to greater efficiencies in production and utilization of resources would contribute significantly to sustainable development
- (h) It should be noted that any positive or negative environmental effects that may result from further trade liberalization will either be enhanced or mitigated by current environmental legislation and measures already in place in Canada, which have promoted environmentally responsible and sustainable production or manufacturing.

32. The next step of the EA process is the Draft EA, which will focus on the environmental issues raised in the Initial EA that require further analysis.

33. Meanwhile, as Canada will be proactive in the negotiations and will be developing further proposals in these areas, the Draft EA will include further analysis of agricultural and industrial goods, services, rules and certain aspects of trade and environment.

34. No further analysis will be required of the multilateral registry for wines and spirits and dispute settlement.
