

Report on the Working Group Meeting on Trade and Environment

International Environment House, Genève
21 October, 1999

Objective of the meeting

- Informal brainstorming on the subsidy issue in environment-related sectors.
- Facilitate the exchange of technical opinions amongst experts to identify issues where CTE discussion faces a deadlock.
- Give UNEP a guide to proceed and a stance on the identified issues

Introduction to the problematic by Mr. Gareth Porter

To open up the discussion, Mr. Porter addressed following key political obstacles in removing subsidies in fishery and agriculture:

- EU's position on fishery subsidies: what can be the possible compensation for the *loser*?
- Japan's position on fishery subsidies; a case for the overcapitalization effect of the perverse subsidies on natural resource depletion
- Japan's position on agricultural subsidies; a case for the food security issue regarding market access fears
- Food importing countries' position in supporting EU agricultural subsidies: how to compensate these countries?

General discussion by the participants

UNEP-ETU's Role in This Issue

- What is going to be the role of UNEP? Does it aim at simple recommendation to the WTO or a parallel forum to the WTO?
- As an international organization solely in charge of the global environment issue, UNEP should give a moral persuasion to the governments of developed countries that do not behave as they preach.
- Given that the WTO is a forum for political negotiation and that there exists difficulty in discussing practicality, UNEP can be supplementary to the WTO in promoting environmentally minded discussion.

Scope of the Discussion

- Subsidies have been classified by the CTE working group. The meeting should not duplicate the effort.
- Given that not all subsidies are perverse, what kind of subsidies is being attacked?
- Is the premise that "not all subsidies are perverse" legitimate? Is it possible to make clear distinction between "good" and "bad" subsidies?
- Is there a correlation between technology intensive fishery/agriculture and subsidies (the technology effect of the perverse subsidies on environmental degradation)? In the case of fishery, intensive use of advanced technology is one reason for the overexploitation of the scarce resources.
- If there is a need for developing countries to have continued subsidies, how can one allow for the exception to the general WTO agreement? Can the exception be coupled with a plan for capacity building towards phasing out of the subsidies in the future?
- Environmental exceptions to upgrade obsolete technology (Article 8) and its implication

Stakeholders

- North-south relationship should be discussed and placed as a basic framework of the problem.

Main obstacles identified

General issues

1. Definitional ambiguity regarding "good" and "bad" subsidies

2. Lack of methodological framework to analyze advantages and disadvantages of subsidies removal and development of policy

Fishery sector

3. EU subsidy; a case to discuss possible policy compensation to the loser.
4. Japan's fishery subsidy.
5. Developing countries' fears regarding fishing subsidy removal
6. Resource based communities and fishery subsidies removal
7. Lack of bargaining power/capacity in distant water fleet

Agricultural sector

8. Food importing countries and agricultural subsidies
9. Japan and agricultural subsidies; food security issue regarding market access fears
10. EU agricultural subsidies; French vested interests?

Key discussions

Good and bad subsidies:

Subsidies can be claimed *good* or *bad* according to the context¹. The context often quoted was:

- North-south relationship: because the developing countries have been handicapped by historical reasons, it should be given some advantage over the matter.
- Sustainable development concept: if the given subsidies policy aims at sustainable development, as the end is justifiable, subsequently the means should be justifiable.
- Non-efficiency value: agriculture for the EU, agriculture and fishery for Japan are the "value-laden" sectors, which the state will strive to protect it at any cost, specifically at the cost of economic efficiency.
- Environmental soundness: if the subsidies are used to promote an environmentally sound economy, it should be given due considerations.
- Product input subsidies versus export subsidies: the product input subsidies can be *good* in contrast to the *bad* export subsidies.

The counter-argument was that

- All the subsidies are proven to be environmentally harmful. Therefore the maneuver to differentiate subsidies must be discarded.
- Regarding to the point made on the product input subsidies, technology intensive agriculture has proven itself to be environmentally devastating, and this trend is aggravated by further product input subsidies.
- To achieve environmental objective, it is better to seek an alternative measure than to reallocate subsidies from the North to the South.
- Assignment of ownership in order to limit the yield below the carrying capacity is not effective for the fishery resource management. To seek remedies of the market failure in property rights is not realistic.

Out of the discussion, it was suggested that

- There is a need to come up with an evaluative criteria so that the subsidy is not abused, for example, a collection of the *best practices* in eliminating subsidies will help stimulate further discussion.

The follow-up to the meeting

- The background paper by Gareth Porter will be revised reflecting the discussions made in the meeting.
- Discussants are invited to contribute their work related to the issues discussed in the meeting.
- As a follow-up to the current meeting, a workshop built on its outcome was suggested. It will expand the audience to the delegates of the Member States to promote the issue.

¹ On the one hand, this leads to the discussion if we need to define the exact terminology on perverse subsidies, and possible revision of the code in the WTO agreement. On the other hand, exactly because it is contextual, it is impossible to classify them under a given number of categories.

Anex: List of Participants

Participants

Mr. Andrea Baranzini
Mr. Daniel Chudnovsky
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