

Sustainability Assessments

Kevin P. Gallagher & Hernán Blanco | April 2003

Sustainability Assessments (SAs) of trade agreements are underutilized tools that could add substantial value to discussions about the Free Trade Area of the Americas (FTAA). Defined as analyses of the potential social and environmental benefits and costs of proposed trade agreements, SAs are gaining widespread use by governmental and nongovernmental organizations alike.

At this writing, however, the FTAA negotiations are lacking serious discussion of the potential social and environmental implications of the agreement. An official effort to incorporate SAs into the FTAA process, before the negotiations are completed, is urgently needed. Neither the peoples of the Americas nor their governments should be expected to support an FTAA without a full prior assessment of the potential environmental and social consequences of such an agreement.

State of the Art

A number of actors in the hemisphere have begun to conduct SAs of trade agreements in order to gain a fuller understanding of the integration process. According to the Economic Commission for Latin America and the Caribbean (ECLAC), SAs are underway under the auspices of the Chilean, Canadian, and U.S. governments, the North American Commission for Environmental Cooperation (NACEC), nongovernmental organizations such as the World Wildlife Federation (WWF), and several academic institutions across the hemisphere. In the United States and Canada (as well as in the European Union), SAs of one form or another are now mandated as a prerequisite for most FTAs. Civil society organizations such as WWF and others have pursued SAs of their own accord.

Negotiations for economic integration now encompass a wide array of issues in addition to trade, such as investment, government procurement, intellectual property rights, and subsidies. Therefore, SAs often rely on a variety of approaches to ensure that they are of maximum use to policymakers. These

approaches fall in two categories: *ex-post* analyses that examine past experiences with economic integration to draw out lessons for future policy; and *ex-ante* analyses that use a proposed policy as their starting point. Ex-post studies often draw from a number of quantitative and qualitative methods such as econometric analysis, survey methods, and case studies. Ex-ante studies usually rely on modeling techniques, such as computable general equilibrium analysis. Although ex-ante assessments are often criticized as being highly speculative, they can serve as useful supplements to ex-post analyses.

SAs in the Western Hemisphere

A growing number of assessments and reviews conducted in the Western Hemisphere highlight many of the positive and negative impacts of past experiences with trade reform in the hemisphere.

For North America, NACEC has taken the lead on ex-post approaches. NACEC is the environmental institution created to run parallel to NAFTA and headed by the ministers of the environment or their equivalent in the governments of Mexico, Canada, and the United States. Their work has demonstrated how some of the most significant trade shifts under NAFTA have had net impacts on the environment that could have been revealed prior to the signing of the agreement.

For example, NACEC's work in conjunction with Mexican researchers has shown that the surge in U.S. exports after NAFTA put considerable pressure on poor corn producers in rural Mexico. This research, which has been confirmed and supple-



mented by nongovernmental organizations, such as WWF and academic institutions, indicates that corn exports not only exacerbated levels of poverty and migration, but have also threatened the rich stock of plant biodiversity cultivated by Mexico's traditional farmers and relied on as a public good by the world's crop breeders.

Other studies commissioned by NACEC have shown that Mexico's loss is not the United States' gain with respect to the environment. The rise in U.S. corn exports to Mexico has provided a stimulus to some of the most environmentally destructive agricultural practices in America. Corn is very chemical-intensive, both in fertilizers and pesticides. With exports up, corn production has extended to some of the drier states, requiring irrigation at unsustainable levels. It has also encouraged the recent rise in genetically modified corn, which is particularly designed to resist pests that are more prevalent in dry conditions.

Under the United States Trade Act of 2002, the U.S. is now required to conduct an assessment of the environmental impacts of proposed trade agreements. The U.S. has conducted draft assessments of the proposed FTAs with Chile and Singapore, and is planning to do assessments for the FTAA and the new round of global trade negotiations.

The U.S. approach to the FTAA assessment has been widely criticized for being overly narrow. In addition to relying on controversial ex-ante modeling approaches, the U.S. plan is too narrowly focused on the environmental effects of trade in goods and services, and virtually ignores the possible effects of changes in other areas such as investment, property rights, competition, and subsidies policies.

The Canadian government tends to draw on a variety of approaches. Canada has conducted an ex-post analysis of the Uruguay Round to draw out lessons for the next round of global trade negotiations. Canada plans to complement that effort with an ex-ante modeling exercise as well. Canada also plans to conduct an evaluation for the FTAA. However, like the U.S., Canada will only be looking at environmental effects.

In contrast to the more official assessments conducted in the north, in South America the great majority of the available studies have been developed by academic institutions, nongovernmental organizations, multilateral agencies such as the UN Economic Commission for Latin America and the Caribbean, and also by commercial partner governments including the United States, Canada, and the European Union, where SAs or environmental reviews are compulsory.

Assessments in Argentina, Ecuador, Brazil, and Chile—among other countries—in sectors such as agriculture, forestry, mining, and fisheries have identified problems that could have been avoided and also unexpected opportunities that could have been seized. Examples include:

- In the Argentinian fishery sector, a recent study commissioned by the UN Environment Program (UNEP) revealed how trade liberalization caused alarming overexploitation of key resources such as *merluza hubbs* (hake) fish. Overexploitation was accompanied by imperfect competition, and a deterioration in labor conditions.
- A forthcoming WWF assessment for Brazil will show that the trade-led expansion of soybean production has led to more chemical-intensive agricultural practices in ecologically sensitive areas.
- In Ecuador, the UNEP commissioned an assessment of the banana sector that documented how producers are able to harmonize the objectives of environmental protection with goals to increase their competitiveness in international markets. The producers themselves generate these initiatives in large part, and the role of the government in promoting production alternatives has been minimal.
- In Chile diverse studies have identified the mixed effects of trade. In certain sectors, such as mining, trade liberalization has contributed to the development and implementation of environmentally friendlier technologies, and to the implementation of programs for corporate social responsibility. On the other hand, increases in

mining investment have also put increased pressure on local water supplies.

In Latin American countries, unlike the U.S. and Canada, there has been no concerted initiative to carry out an assessment of the FTAA to date. Such an endeavor should be pursued *before* the negotiations are completed to assess its overall impact and decide whether such an agreement serves sustainable development goals or to identify and implement preventive measures.

Bringing Sustainability Assessments into the FTAA Process

The FTAA conveners should conduct official and publicly released SAs of the potential environmental and social effects of the proposed FTAA before completing negotiations. In addition, any agreement that is reached on the nature of economic integration for the Western Hemisphere should include continuous monitoring of the sustainability impacts of the agreement's subsequent implementation.

A call for bringing SAs into the official FTAA process was made by an array of civil society organizations during the VII Ministerial Conference of the FTAA, held in Quito in October of 2002. This call reiterated similar recommendations made by civil society groups at the 2001 Summit of the Americas in Quebec. Such calls continue to go unheeded.

A comprehensive set of SAs for the FTAA could help the negotiation process in at least three ways. First, gaining knowledge about the potential social and environmental benefits of various policy options can help policymakers target such benefits. Similarly, gaining knowledge of the potential costs of trade policies can help policymakers ensure that costly policies are avoided or that they are coupled with mitigating strategies. Second, SAs can contribute to identifying “winners” and “losers” of proposed trade policies and thus reveal important asymmetries and serve as a platform for dialogue, mutual education and negotiation, and possible mitigation measures. Finally, SAs can lead to greater social legitimacy for the integration process if they

truly involve civil society and promote transparency in their decisionmaking processes.

A comprehensive SA process for the Americas should include five elements. Hemispheric-wide SAs should:

- Take a broad view when analyzing the social and environmental impacts of economic integration, assessing the impacts of regimes such as investment, subsidies, and intellectual property rights as well as changes in market access.
- Be open and transparent, involving stakeholders in an ongoing process that continues if the agreement is implemented.
- Evaluate the environmental and social impacts of the hemispheric experiments with trade reform in the 1990s to draw out lessons for the proposed agreement.
- Provide concrete policy recommendations that can serve as mitigation options or alternatives to proposed FTAA rules.
- Aim at strengthening the institutional capacities of the countries of the hemisphere for assessing the impacts of trade policies.

In short, the FTAA needs SAs that produce reliable analyses in time to inform decisionmakers whether the agreement they are considering will do irreparable harm to the environment or society. In order to do this, especially in the case of developing countries in the hemisphere, new funds need to be made available. Although significant funds have been appropriated by the U.S. government and the World Bank to facilitate the FTAA process, no effort has been made to examine the environmental and social impacts of the agreement. During the Quito meetings, the U.S. government launched a \$140 million fund for “Hemispheric Technical Assistance” during the FTAA process. This fund is in addition to the \$16 billion committed by the World Bank during the 2001 Summit of the Americas meetings in Quebec City. Earmarking some of these funds to conduct comprehensive SAs of the FTAA and to build the institutional capacities of nations across the hemisphere dovetails with the stated objectives

of this funding and can assure a more informed debate over hemispheric integration.

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CONTACTS

GOVERNMENTAL:

Government of Canada's assessment page

<http://www.dfait-maeci.gc.ca/sustain/menu-en.asp>

NACEC: North American Commission for Environmental Cooperation

<http://www.cec.org/>

UNEP: United Nations Environment Program

Economics and Trade division

<http://www.unep.ch/etu/etp/index.htm>

ECLAC/CEPAL Economic Commission for Latin America and the Caribbean

<http://www.eclac.cl/>

USTR

<http://www.ustr.gov/>

NONGOVERNMENTAL AND ACADEMIC INSTITUTIONS:

World Wildlife Fund

<http://www.balancedtrade.panda.org/>

CEDA : Ecuadaran Center for Environmental Law

<http://www.ceda.org.ec/>

RIDES: Research and Resources for Sustainable Development (Chile)

<http://www.rides.cl/>

Global Development and Environment Institute

Tufts University

<http://www.ase.tufts.edu/gdae/>

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