

International Trade and Environmental Protection

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Abstract

Regional economics has focused predominantly on the commercial exchange between regions and countries, but it has only recently become clear that environmental concerns can also be studied in the context of regional economies. Thus, the goal of this study is to give a broad review of the key topics relating to the economic interconnections between trade and environmental policies. Not only is global trade growing quickly, but trade-related global industrialisation and regional economic expansion have also led to serious environmental damage. The purpose of this paper is to provide a perspective on current and upcoming research by employing a dual approach: first, economic studies of the most important environmental and trade issues are examined, and second, the development of the methodologies required to examine their interactions is assessed. The study provides some helpful recommendations for future trade discussions on how to balance trade and the environment. The study provides some helpful recommendations for future trade discussions on how to balance trade and the environment. Conflicts between MEAs and WTO rules, while possible, have not yet materialised. To oversee worldwide environmental law and represent environmental concerns within the context of international trade, a World Environmental Organization has been proposed. If sufficient environmental protection measures are not present at the regional or international level, national policies must be implemented to handle trade-related environmental concerns.

Keywords: international trade, industry, environment, degradation, pollution

Introduction

“The clean energy transition that is currently taking place could gain more speed if trade restrictions for green products and services were removed” - Adam Wolff, the World Trade Organization's deputy director general (WTO)”

When it comes to preserving the environment and attempting to slow down climate change, international trade is essential. Adam Wolff claims that trade policies are effective tools for boosting resource efficiency, expanding investment in secure and resilient infrastructure, and speeding up climate-friendly innovation. Additionally, they reveal the USD 26 trillion in market potential that would arise from bold climate action by 2030.

According to the WTO, wind, solar, and other forms

of renewable energy are now the least expensive sources of electricity in many markets. Furthermore, during the previous seven years, new capacity for renewable energy has outperformed new capacity for fossil fuel. Nearly three-quarters of all new electricity capacity added worldwide in 2019 came from renewable sources. Additionally, it is anticipated that by 2050, employment in this industry, which had 11 million jobs worldwide in 2018, will have quadrupled, with an additional 40 million jobs possible in energy efficiency and related fields.

The International Trade Centre (ITC) claims that rising consumer demand for goods made from sustainably obtained natural resources is also being driven by a growing concern about environmental challenges on a worldwide scale. Conscious consumers are asking for more proof that production is in line with “fair” and “ethical”

procedures throughout the value chain, and this industry is estimated to be worth over USD 50 billion globally. Since production is frequently labour-intensive and premium prices are available to smallholder farmers, who make up the majority of the rural poor, the market for certified natural resource-based products is contributing to the decline in poverty. The trade also has a positive impact on the environment by reducing pesticide usage, preserving forests, storing carbon in soils and timber, and increasing biodiversity.

The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), which regulates trade in wildlife, attempts to ensure that the survival of endangered species of wild animals and plants is not threatened. There are multiple appendixes that list various species and the rules governing their trading.

Over the past ten years, the pursuit of a workable compromise between global trade agreements and environmental realities has taken centre stage in international relations. Both the international commerce and environmental legal regimes are rapidly changing, but until recently, they were growing on separate tracks. This is due to the rapid expansion of global trade and acceleration of environmental degradation. Deregulation (removing trade barriers) is the cornerstone of trade policy, while environmental policies are frequently reliant on regulation (controls over the international market). There have been real and potential conflicts between the two legal regimes as a result of their fundamental differences in design and occasionally competing objectives. As a result, the international community has turned its attention to the trade-environment interface.

The Rio Earth Summit, the Uruguay Round Negotiations, the North American Free Trade Agreement (NAFTA) negotiations, and a number of international disputes on trade-environment conflicts all took place at the same time in the early 1990s, which brought the trade-environment argument to the fore. Since then, the trade-environment dispute has drawn the attention of the world community, and recent events are set to give it new life.

First, the Doha Ministerial Declaration, which was issued at the WTO's Fourth Ministerial Meeting in November 2001, included environmental issues to the organization's negotiating agenda (WTO).

Second, recent decisions by the WTO Dispute Settlement System (DSS), particularly in the cases of the Asbestos and Shrimp Turtle, signal a new role for the WTO as a trade organisation that acknowledges that some non-trade issues, such as the protection of public health and the environment, must take precedence over interests in free trade. The longstanding worry of "green protectionism" among poor nations is likely to be made worse by this legitimization of trade measures for non-trade grounds. Third, the risk of the WTO- MEA compatibility issue being contentious rises as more and more MEAs turn to trade measures in recent years. The World Summit on Sustainable Development (WSSD), which will take place in Johannesburg, South Africa from August 26 to September 4, will also discuss this issue. In light of these recent changes, the trade-environment topic is therefore more loaded and dynamic than ever and is ready to go in new directions.

Since free trade is based on the theory of "comparative advantage," which states that trade enables a country to specialise in the production of goods and services in which it is relatively most efficient, increased international trade ought to theoretically have a positive impact on the environment. In light of the fact that trade helps nations to optimise production from a given input of resources, it follows that trade should be supportive of environmental sustainability.

The interests of free commerce and environmental conservation are theoretically reconciled. The necessity for trade and environmental policies to support one another is emphasised in a number of international environmental treaties, including the Rio Declaration on Environment and Development and Agenda 21. In contrast, the Marrakesh Agreement Establishing the World Trade Organization acknowledges in its preamble that the goal of "sustainable development" must be kept in mind when pursuing the goals of free trade. The global community is thus dedicated to both trade liberalisation and environmental conservation in theory. However, in reality, the trade-environment conflict has given rise to a variety of issues that have proven difficult to solve. This study makes an effort to address these issues.

The study is based on the assumption that trade and the environment should work together to promote sustainable development and, in turn, increase

human welfare because both are significant areas of policy and law making that strive to benefit humanity. As a result, international law must be seen as having a compelling interest in finding ways to balance commerce and environmental concerns on a global level.

Emergence and Evolution

Since the 1970s, when the global environmental movement began to gain significant traction, there have been concerns on a global level about how economic expansion may affect the environment. Limits to Expansion, a report by the Club of Rome,¹ was one of the first to raise concerns about the sustainability of economic growth. It predicted that if unchecked economic growth continued, important natural resources like fossil fuels would become increasingly scarce and eventually depleted. The Report forewarned that if human activity was not restrained, the earth's "carrying capacity" for environmental load will be exceeded, possibly leading to collapse. Thus, it was predicted that environmental sustainability and economic expansion would eventually collide. Since trade is regarded as a key factor behind economic expansion, it was also suggested that it might have a detrimental effect on the environment. Concern over the effects of trade on the environment was raised in 1972 at the UN Conference on the Human Environment (UNCHE). The GATT Secretariat contributed research to the Conference as part of the multilateral trade system's participation in UNCHE. The GATT framework included the establishment of the Group on Environmental Measures and International Trade (EMIT Group) in 1971. However, this group remained dormant for the following 20 years, up until the point when the trade-environment argument gained steam on a global scale. The term "sustainable development" was first used in 1987 in the Brundtland Commission Report, Our Common Future, which emphasised that the only kind of development that could be acceptable was one that was environmentally sustainable.

International Trade and Environment

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environment. In light of the fact that trade helps nations to optimise production from a given input of resources, it follows that trade should be supportive of environmental sustainability. But trade does not always have a positive influence on the environment, and it actually has lot of potential to do so. The environment has typically been treated by economic theory as a plentiful, free good that has little bearing on competitive cost advantages. Trade can exacerbate unsustainable patterns of economic activity, such as increased pollution and resource depletion, if environmental externalities are not taken into account when setting economic prices and making decisions. In order to fully protect the environment, efforts must be made to ensure that the external costs of production and consumption (such as environmental costs) are factored into product prices.

In other words, a significant portion of the relationship between trade and the environment fits into the paradigm known as "critique of economic growth," wherein trade has a role to play to the extent that it is anticipated to foster growth. This includes the debate over whether trade liberalization's effects on growth primarily lead to an expansion of the economic subsystem at the expense of the ecological subsystem by increasing the demand for resources and the capacity of the earth's ecosystem to absorb pollution, or whether this is outweighed by the opposite effect of rising incomes freeing up more money for environmental protection. Does global trade have a detrimental impact on the environment? This section aims to answer that issue.

Trade's impacts on the environment

Moving commodities across borders with potential environmental repercussions, both direct and indirect, is the main side effect of international trade.⁸ The potential detrimental direct effects of trade are not in question, as will be described below, but the indirect effects of trade are still controversial and theoretically ambiguous.

Environmental expenses are internalised at the national level through programmes like "green" levies, environmental certifications, or governmental rules. In the case of international environmental issues, trade restrictions in the form of import charges on "polluting" commodities are intended to be implemented in order to integrate environmental costs. Transnational pollution taxes, however, are just a second-best alternative because they may only be

able to effectively limit transboundary emissions related to export production.

Trade's Direct Effects

These speak to the consequences of the increasing transit needed for trading products as well as the types of goods that are traded.

The Transfer of Traded Goods

Transporting commodities is one immediate consequence of trade. Transport will expand as a result of trade liberalisation, aggravating the environmental harm these activities cause. Potentially harmful environmental effects of transportation include increased energy consumption, enhanced air pollution from burning fossil fuels for transportation, contamination of ports, and the potential for hazardous spills enroute. This is a summary of how trade liberalisation has affected transportation: It is probably safe to say that the expansion of global trade will improve the output of the transportation industry in some way. Additionally, it can cause a change in the preferred method of transportation, from the more harmful road and air transit to the relatively benign sea and rail transportation. Due to these factors, it is important to carefully consider how trade liberalisation may affect the environment and the transportation industry. Additionally, trade liberalisation policies may need to be accompanied by countervailing environmental protection policies.

Traded Goods' Nature

The other direct result is the locational result brought on by the moved good itself. A potentially hazardous insect or a hazardous non-native species, for instance, could reach a country through imported meat, fruit, or vegetables. Furthermore, hazardous waste or substances might be transferred to a nation that is ill-equipped to handle or safely dispose of them.

Indirect Consequences

These are the wider repercussions of the items' relocation. Environmental effects of economic integration depend on three interrelated factors: a composition effect, a scale effect, and a technique effect, according to economic theory models on trade and the environment.

Composition and Impact

The composition effect, often referred to as the structural effect, describes the industrial reorganisation that occurs when a nation becomes more and more integrated with the global market. The effects on the local environment will be favourable if the country's expanding export sectors are less ecologically damaging than its importing ones, and adverse if they are more polluting. The widespread export of ivory from Africa to markets throughout the rest of the globe is an illustration of how trade leads to production that is environmentally destructive. All nations cannot specialise in clean industries since the exportable of one nation are the importable of another. Therefore, trade causes the global movement of pollutant sources.

Scale Impact

The scale effect is a result of the trade's increased economic activity. Trade-accelerated economic expansion might be hazardous to the environment unless it results in cleaner, less resource-intensive production, and more recycling-inclined customers. An illustration of the scale effect is the rise in pollution in Mexico as a result of trade liberalisation.

Technique Impact :

The scale effect's link to wealth growth may promote a countervailing demand for a cleaner environment. Governments will update their environmental policies as income rises, countering or even exceeding the scale effect, if they respond to popular demands. The technique effect is the name for this effect (also known as the income effect).

Hypothesis EKC (Environmental Kuznets Curve)

The EKC Hypothesis, which relates lagging environmental protection efforts to low incomes, is closely related to the income impact. Developing nations may not have the financial means to set aside funds for environmental protection. In addition to prioritising addressing more pressing crises, economic growth enables countries to concentrate on long-term sustainability issues. According to certain empirical data, pollution rises in the beginning phases of development but declines once a specific economic level is achieved.

Environment And Trade Agreements

What organisations and regulations can effectively strike a balance between the objectives of environmental preservation and trade benefits? Numerous strategies have been put out, some of which are substantially different from the traditional free trade model. These methods consist of:

World Trade Organization Strategy

Through "rounds" of trade agreements under the General Agreement on Tariffs and Trade (GATT), which became the World Trade Organization in 1994, this strategy maintains the overriding policy objective of free or "liberalised" trade that has been pursued for five decades. Over 120 countries are currently members of the WTO and GATT, which have fought to reduce trade obstacles such as tariffs and nontariff barriers as well as get rid of export industry subsidies.

Although Article XX of the WTO's Trading Rules recognises an unique provision for resource conservation and environmental preservation, its panel decisions have narrowly interpreted this. The use of trade barriers to shield home industry from competition under the pretence of environmental legislation is known as "green protectionism," and it is often looked upon by WTO authorities. They also resist attempts by countries to employ trade sanctions to influence environmental policies outside of their borders.

The WTO believes that national governments should continue to be in charge of environmental policy. As little as feasible, environmental concerns should not be a factor in choices about international trade policy. This is in line with the specificity rule in economics, which states that problems should be addressed at their root cause through policy measures. Therefore, using trade measures to achieve environmental policy goals is a second-best option that is likely to have other, undesirable outcomes like a decrease in trade gains.

This claim that national governments should be in charge of environmental policies has drawn criticism for a number of reasons. It neglects to take into account the weak institutional frameworks found in many developing nations, as well as the competitive incentives that can lead trade nations to weaken environmental regulations. Additionally, it

is insufficient for addressing truly global or transboundary environmental issues.

The Approach of the North American Free Trade Agreement (NAFTA)

The NAFTA agreement, which was signed in 1993 by the US, Canada, and Mexico, reduced trade restrictions throughout the continent. Environmental groups made a strong case throughout the discussions for this agreement that increased trade could have a harmful impact on the environment. They cited the serious environmental issues already faced by the maquiladoras, which are tariff-free industrial zones along the Mexican border. As a result, the North American Agreement on Environmental Cooperation (NAAEC), which was a side agreement, established the trilateral Commission for environmental cooperation (CEC), and the North American Agreement on Labour Cooperation (NAALC), which addressed labour related concerns.

This particular focus on social and environmental elements of commerce was noteworthy and essentially unheard of in trade agreements. Although this novel feature of NAFTA convinced some American environmental organisations to approve the deal, the CEC has limited authority. It may intervene in response to a nation's failure to uphold environmental laws, but typically speaking, its job is confined to collecting information and making suggestions to the relevant government. Additionally, while border conditions have continued to get worse, pledges of financing to clean up environmentally harmed areas along the Mexican/U.S. border have largely not been kept.

The liberalisation of trade in the agriculture sector under NAFTA has an impact on society and the environment since it allows Mexico's small maize producers to compete with grain imported from the United States at lower prices. Urban environmental pressures will increase as displaced farmers move from rural to urban areas, and there will also be more demand for illegal immigration across the border between the United States and Mexico. Additionally, small-scale farming's unique genetic variety may be in danger, which might lead to the loss of a "living seed bank" that is essential to global agriculture.

The NAFTA has both beneficial and negative effects on industrial pollution. Although environmental regulation in Mexico has improved, some local

environmental conditions have gotten worse as a result of growing industrial concentrations. The environmental provisions of NAFTA have, according to a concise form, "fallen far short of the ambitions of the environmental community" and "should be strengthened in the next phase of NAFTA," according to the review.

The Method of the European Union

The European Union is unique in that it is a free-trade zone with independent governmental and administrative structures. The European Union, as opposed to the North American CEC, has the authority to impose environmental regulations on its member nations. The harmonisation of environmental norms is what this is. But keep in mind that this strategy also entails the establishment of a supranational body with the capacity to establish environmental standards.

Policies governing regional trade areas also bring up the question of "harmonising up" and "harmonising down." To comply with EU regulations, certain nations may be compelled to tighten their environmental legislation. However, it's possible that other nations' environmental rules will be lowered. The EU overruled a Danish law mandating returnable bottles as a trade barrier, while Norway decided against joining the EU in part out of concern that they would be forced to modify stringent domestic environmental standards.

The kind of enforceable supranational environmental laws that exist in the EU are relatively uncommon in trade agreements. There is no justification for this process to be anything other than voluntary, despite the fact that the Standards Code, which was created in 1992 following the Uruguay Round negotiations, asks for international harmonisation of environmental standards. In fact, detractors believe that harmonisation carried out in the exclusive, business-dominated environment of the WTO standards committees would frequently harmonise standards downward rather than higher.

Multilateral Environmental Agreements (MEAs)

Some environmental issues have long been acknowledged as requiring global solutions. The Phylloxera accord, which limited trading in

grapevines to stop the spread of pests that harm vineyards, was the first international agreement addressing trade and the environment. An international convention prohibiting the use of phosphorus in matches was adopted in 1906. Although it was the least expensive component in matches, phosphorous was the cause of major occupational sickness among matchmakers. To prevent any exporting nation from getting a competitive edge through the use of phosphorus in match manufacture, an international convention was necessary.

Since then, a large number of international agreements have been made to address various environmental problems. Among them are agreements that safeguard endangered species, migrating birds, polar bears, whales, and fur seals. The Basel Convention on Hazardous Wastes (1989), the Antarctica Treaty (1991), the Montreal Protocol on Substances that Deplete the Ozone Layer (1987), and the Convention on Straddling and Highly Migratory Fish Stocks (1991) all address transnational and international environmental challenges (1995). Guidelines for lowering greenhouse gas emissions were set by the Kyoto Protocol on Climate Change in 1997. These guidelines included significant trade-related initiatives.

In a way that individual nations cannot, these international conventions have addressed the environmental effects of production techniques.

"Clearly a national prerogative, the local imposition of PPM standards on domestic manufacturing industries should not, however, be used to impose restrictions on imported goods, regardless of the manufacturing method employed. Such a course of action would be against the GATT. However, this would be far more acceptable if PPMs were included as appropriate measures under a Multilateral Environmental Agreement (MEA), as their imposition would be multilateral rather than unilateral." However, there are still significant concerns over the compliance of MEAs with WTO regulations. In the event of a dispute, which set of international agreements should prevail? For instance, the Kyoto Protocol supports the transmission of energy-efficient technologies to developing countries with the use of subsidies, yet this clause may violate the WTO's ban on export subsidies. There hasn't been a significant test case

involving a disagreement between a MEA and a trade agreement yet, whereas national laws like the U.S. Marine Mammal Protection Act have been found to be incompatible with WTO regulations.

CONCLUSION

Increasing trade can frequently have an impact on the environment. At the local, regional, or international level, trade may result in a rise in environmental externalities. While it is typically economically advantageous for countries to pursue their comparative advantage through trade, there may also be adverse environmental effects as a result of trade, such as increased pollution or the destruction of natural resources. Trade has a variety of negative environmental repercussions. Changes in agricultural cropping patterns brought about by the introduction of export crops may be advantageous or detrimental to the environment. Trade may have unintended consequences that affect marginal areas, increased migration, and existing communities. Regional effects of industrial pollution may be transferred, decreased, or enhanced. Resource conservation and environmental preservation are addressed in certain international trade agreements, but they are typically narrow exceptions to the fundamental idea of free commerce. Countries are permitted to consider the environmental effects of products in the World Trade Organization, but not the effects of production methods. This has given rise to a number

of trade disputes about whether certain policies are justified by the need to preserve human life and health or whether they are merely disguised protectionism. Trade and environmental challenges can be addressed by policy at the national, regional, or international levels. A free trade region that has established structures for enforcing transnational environmental norms is the European Union. A side agreement was included with the North American Free Trade Agreement. Trade and environmental challenges can be addressed by policy at the national, regional, or international levels. A free trade region that has established structures for enforcing transnational environmental norms is the European Union. A side agreement establishing the Commission for Environmental Cooperation as an environmental monitoring agency was included with the North American Free Trade Agreement, however this organisation has limited enforcement ability. Multilateral Environmental Agreements (MEAs) deal with particular transnational or international environmental challenges. While potential, conflicts between MEAs and WTO regulations have so far been avoided. A World Environmental Organization has been proposed to regulate international environmental law and represent environmental concerns in the framework of global trade. National policies are required to handle trade-related environmental challenges if adequate environmental protection measures are lacking at the regional or international level.

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