

Lecture notes EEP 131
Topic 3, September 21, 2006

Where we are going (in this lecture)

- Provide a brief history of international institutions for environmental management
- Summarize principles on which they are based.
- Then summarize functions, structure, goals and provisions of the World Trade Organization (WTO)

Stockholm Conference

- 1972 UN Conference on Human Environment -- one of early global environmental meetings.
- Established UN Environmental Program (UNEP)
- UNEP launched several International Environmental Agreements (IEAs) and has administrative responsibility for 7 of them.

Bruntland Report

- 1985 UN established World Commission on Environment and Development.
- Issued report “Our Common Future” (Bruntland Report) in 1987.
- Emphasized importance of sustainable development: “meet the needs of the present without compromising the ability of future generations to meet their own needs”.
- Basis for 1992 Rio UN Conference on Environment and Development.

Principles of Environmental Agreements

- Prevention cheaper than remediation.
- Precautionary Principle: lack of conclusive scientific evidence does not justify inaction
- Subsidiarity: action should be taken at “most local” level practical (local solutions for local problems)
- Common but differentiated responsibilities: burdens should be different for the rich and the poor

IEA Principles, continued

- Openness and transparency
- Polluter pays principle (PPP). A specific assignment of property rights.

Many examples where polluters are subsidized to prevent pollution (Recent EC ag policy), contrary to PPP.

The Coase Theorem shows that in some circumstances the outcome (amount of pollution) does not depend on assignment of property rights. (Mention controversy over doctrine of “regulatory takings”.)

Tools for achieving environmental goals

- Standards on state of environment (e.g., concentrations of pollutants in air, water)
- Emissions standards (Important difference between stocks and flows.)
- Product standards (e.g. no lead in paint)
- Markets for permits.
- Taxes (When are these “equivalent” to quotas, i.e. “emissions standards”?)

“Trade sensitive” tools to achieve environmental goals

- Standards on Process and production methods (PPMs). These relate to the manner in which products are made (e.g. require use of recycled inputs) to regulate environmental impact. Mention CA bill to prohibit import of electricity produced using carbon-intensive methods.
- Performance standards (e.g. require certain actions, such as environmental impact assessment.) (Also related to labor standards)

Dispute settlement in IEAs

- Rely primarily on consensus.
- Some IEAs, such as Montreal Protocol (goal to reduce ozone-destroying substances) use limited trade restrictions against offending nation, but even this agreement relies more on carrot than stick.
- Contrast to dispute settlement in WTO

Description of WTO

- Review history of formation (ITO—GATT—WTO after Uruguay Round)
- Functions
- Structure
- Goals
- Specific provisions

Countries want to join WTO, rather than being pressured to join. China's campaign to overcome U.S. opposition to their membership. Russia wants WTO membership. (EC drops opposition after Russia joins Kyoto.)

Functions of WTO

- Oversee and implement WTO agreements
- A mechanism to resolve trade disputes
- A forum for negotiations.

Structure of WTO

- Ministerial Conference: governing body consisting of members' trade ministers, meets every two years (e.g. Seattle)
- General Council: ambassador level representatives make day-to-day decisions.
- Trade Policy Review Body: reviews members' implementation of WTO obligations

WTO Structure continued

- Councils of Trade in Goods and Services oversee details of specific agreements, e.g. for ag and textiles.
- Council for the Agreement on Trade-Related Aspects of Intellectual Property Rights.
- Committee on Trade and Environment. (Discusses relationship between trade rules and environment. Not a rule-maker.)

Dispute Settlement

- Dispute Settlement Body: composed of all members. 3-member Settlement Panels selected for individual disputes.
- Ruling of Panel “must” be adopted.
- Country can appeal Panel decision to 3 randomly selected members of permanent Appellate Body (AB) on basis of point of law. AB decision can only be reversed by consensus of Dispute Settlement Body.

Dispute Settlement, continued

- If country fails to implement a Panel decision, parties negotiate on compensation.
- If negotiations fail, prevailing party obtains permission from DSB to retaliate by using trade sanctions (withdrawing “concessions”)
- *Countries cannot be forced to change laws.* Losing parties sometimes accept sanctions rather than changing laws (e.g. EC beef hormones).