



The FTAA and Hemispheric Integration

Building a Triple-Win Strategy for Trade and Sustainability in the Hemisphere

The Miami Summit Declaration of Principles

Our continued economic progress depends on sound economic policies, sustainable development, and dynamic private sectors. [...] Free trade and increased economic integration are key factors for raising standards of living, improving the working conditions of people in the Americas and better protecting the environment.

Social progress and economic prosperity can be sustained only if our people live in a healthy environment and our ecosystems and natural resources are managed carefully and responsibly. [...] We will advance our social well-being and economic prosperity in ways that are fully cognizant of our impact on the environment.

A Trade and Sustainability Agenda for the Americas

The Americas integration process was launched at the Miami Summit in 1994. Along with democracy, trade liberalisation and sustainable development were adopted as the main thrust of hemispheric integration, as reflected in the first headline of the Miami Declaration of principles: *Partnership for Development and Prosperity: Democracy, Free Trade and Sustainable Development in the Americas*. Parallel processes were established to implement trade liberalisation and sustainable development. The first one set the goal to create a Free Trade Area of the Americas (FTAA), launched formally in 1998 at the Santiago Summit of the Americas with the specific objective to complete negotiations by 2005. A second initiative was to hold a hemispheric Summit on sustainable development in Bolivia in 1996 to follow up on the 1992 UN Conference on Environment and Development in Rio de Janeiro, and establish a blueprint for sustainable development in the Americas.

Launched on two parallel tracks in 1994, the sustainable development and trade liberalisation processes did not really come together again in the following years, creating a fundamental disconnect between environment, social and trade policy in the hemisphere. Five years after the Bolivia Summit, and four years before the anticipated conclusion of the FTAA negotiations, the time has come to build a synergetic relationship between these two pillars of hemispheric integration.

The FTAA process is an integral part of the broader summitry agenda in the Americas. Contrary to the WTO multilateral trade regime, the FTAA process benefits from the existence of this comprehensive hemispheric cooperation process that can address social, environmental, civil society participation and democracy issues that are raised in trade liberalisation processes. Hemispheric Summits are therefore key mechanisms to integrate trade, social and environmental policy into a coherent system. But in order to realize the full potential of this complex, summit-driven institutional machinery, the FTAA needs to address these issues head-on and develop a synergetic relationship with broader cooperation processes, especially in the field of sustainable development. By developing such an approach, the Summit of the Americas could break the *Seattle syndrome*, which seems to have plagued discussions on these issues since the Millennium.

The Three Pillars of a Trade and Sustainability Strategy for the Americas

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The Three Pillars of a Trade and Sustainability Strategy for the Americas

The present Trade and Sustainability agenda for the Americas aims to develop a triple-win strategy, that is a strategy which is beneficial to trade liberalisation, environmental protection, and social development, with an appropriate participation from civil society. The strategy rests on three pillars:

Build a sustainable FTAA through the identification and adoption of a series of environmental provisions to be incorporated in the Agreement.

Strengthen environmental cooperation in the Americas, especially in trade-sensitive or trade-related sectors, building on existing mechanisms.

Create a High Level Hemispheric Experts Group on Trade and Sustainability for continuous and constructive dialogue with civil society and industry on these issues.

These three pillars constitute an integrated, realisable, and synergies-oriented action plan on trade and sustainability which bears the potential to deliver better trade policies and a better environment towards the 2005 deadline and beyond.

Building a Sustainable FTAA

The San José Ministerial Declaration

Furthermore, we reiterate that the negotiation of the FTAA shall take into account the broad social and economic agenda contained in the Miami Declaration of Principles and Plan of Action with a view to contributing to raising living standards, to improving the working conditions of all people in the Americas and to better protecting the environment.

General Objectives of the FTAA

1. To promote prosperity through increased economic integration and free trade among the countries of our Hemisphere, which are key factors for raising standards of living, improving the working conditions of people in the Americas and better protecting the environment.

5. To strive to make our trade liberalization and environmental policies mutually supportive, taking into account work undertaken by the WTO and other international organizations.

Trade is a powerful engine for economic growth and development. Indeed, the structure and mechanics of a trade agreement can have deep structuring impacts on a country or a region's economic development. Debate over the positive or negative impacts of trade-induced economic growth on the environment is still ongoing. Sectoral studies have shown that trade-induced growth can lead to increased depletion of natural resources, increased levels of pollution and related public health problems, and loss of habitat and species. On the other hand, trade holds the promise of increased prosperity and constitutes a powerful tool that can contribute significantly to sustainable development.

By identifying and developing provisions that are consistent with both a trade liberalisation and a sustainability agenda, the FTAA can deliver an important piece of the structural paradigm shift to sustainable development. The use of incentives and economic instruments to promote a sustainability agenda, along with a trade-focused environmental cooperation agenda could do much to raise living standards, public health, and environmental protection in the Americas.

The FTAA and the Environment: Overcoming Fear

Formal FTAA negotiations were launched at the San Jose ministerial in 1998. The San José mandate created nine negotiations groups (Market Access - Investment - Services - Government Procurement - Dispute Settlement - Agriculture - Intellectual Property Rights - Subsidies, Antidumping and Countervailing Duties - Competition Policy), supervised by a trade negotiation committee. In addition, special committees were created on smaller economies, electronic commerce, and civil society. This last committee was presented as a formal consultation process through which trade-related social and environmental issues would be discussed.

Until now, FTAA negotiations have been unable to address the contentious issue of trade policy as it relates to environmental and social policy. This situation has much to do with fears, mostly in Latin America, that environmental provisions in the FTAA would be used by Canada and the United States to justify protectionist measures. Also, it is feared that higher environmental standards and regulations would undermine the competitiveness of Latin America and Caribbean (LAC) businesses. Last, but not least, the fear of unilateral US environment-related trade sanctions as experienced by Mexico and other countries in the GATT/WTO system in the 1990's remains a powerful psychological hurdle to be removed if the FTAA is to address environmental issues.

The Toronto Ministerial Declaration

In addition to contributing to further economic integration, the FTAA process serves to strengthen cooperation among the principal international institutions in the Hemisphere. It has promoted the creation of many partnerships and networks amongst our business communities and other segments of civil society and, as a result, has brought about extensive information-sharing and knowledge-transfer between our governments.

These fears do not seem to have materialized for Mexico in its relationship with its two NAFTA partners in the last seven years. Indeed, Mexico's share of intra-regional trade has expanded from 15% to 21% in the 1994-1999 period, as a result of a 177% increase in Mexico's sales to its NAFTA partners. This impressive progress was achieved in the presence of environmental provisions in the main treaty, institutionalized environmental cooperation through a side-agreement, and continuous involvement of civil society.

Another concern is widely shared by the LAC and North American trade communities. Many fear that the incorporation of environmental provisions both in the FTAA and in parallel mechanisms may be detrimental to trade liberalisation. Again, the examples of NAFTA and MERCOSUR seem to challenge this assertion. There is no evidence that these provisions had trade-distorting or trade-limiting effects. For example, NAFTA intra-regional exports grew 92% between 1993 and 1999. This figure is significantly higher than the increase in exports between NAFTA countries and the rest of the world during that same period (35%). Likewise, intra-Mercosur trade has been multiplied by four since 1990.

It is ironic to see that recent environmental trade disputes have risen in the context of the GATT/WTO system which has a very limited environmental regime, rather than within MERCOSUR and NAFTA which are characterized by more extensive environmental regimes. While the FTAA is being deliberately built on the rules and disciplines of the WTO, this does not mean that these rules and disciplines cannot be improved by the FTAA. What is important is to establish a system that will not allow trade related environmental measures to become disguised restrictions to international trade, while at the same time not permitting said measures to become unusually vulnerable within the FTAA. Significant progress can be achieved by moving from the traditional negative sanctions-based approach to trade-related environmental issues, to a more positive, cooperation-driven approach seeking triple-win strategies. Trade policymakers will have to address these issues if they wish to build support for trade liberalisation in the hemisphere.

Addressing Environmental Issues in the FTAA

Improving the FTAA Negotiating Process:

Various steps can be taken to address environmental issues in the FTAA. Negotiators should incorporate a series of **environmental provisions**, and establish a direct relationship with auxiliary trade-related environmental cooperation processes. **Sub-regional agreements**, especially MERCOSUR, CAN, CACM and NAFTA, can provide models for addressing these structural issues. The FTAA must be tightly connected with these environmental cooperation processes through a systematic inter-institutional cooperation strategy, and through improved coordination between trade and environment policy makers.

An *ex ante* FTAA sustainability **impact assessment** process, or five sub-regional processes, should also be established to orient negotiations in the next four years. This process can identify positive and negative social and ecological impacts of the FTAA, and resulting in recommendations to maximize the first and minimize or develop

flanking measures for the second. It must be transnational, transparent, and open to civil society, business, academia and governments. It should culminate with policy recommendations that would suggest specific language to be incorporated into the agreement, and recommendations on specific environmental cooperation processes that should be developed to support a sustainable trade regime in the hemisphere. The process should report directly to the Trade Negotiation Committee and to the 34 governments of the hemisphere. It should remain in place after the entry into force of the FTAA to allow constant monitoring of its impact and feed into trade and environmental policy in the Americas.

The FTAA needs to address the issue of **transparency and participation** in its negotiations, and dispute resolution processes. Major progress was made on this issue at the Buenos Aires Ministerial, with the decision to release the negotiation texts and to institutionalize dialogue between civil society and FTAA Ministers. A mandate was given to the Committee on Civil Society to expand its channels for communication with groups from the hemisphere. While these decisions must be welcomed as major steps towards the goals of transparency and participation, it remains to be seen how they will be implemented in the following months. The new mechanisms and practices that will be established will have to provide for real and effective dialogue. The status of the Americas Business Forum could provide an interesting model for future involvement.

In addition, a series of general and specific environmental provisions could be incorporated in the FTAA to support a trade and sustainability agenda. These provisions should support development, trade liberalisation, and environmental protection:

The Buenos Aires Ministerial Declaration

We reiterate that the negotiation of the FTAA will continue to take into account the broad social and economic agenda contained in the Miami and Santiago Declarations and Plans of Action with a view to contributing to raising living standards, improving the working conditions of all people in the Americas and better protecting the environment. [...] We reiterate that one of our general objectives is to strive to make our trade liberalization and environmental policies mutually supportive, taking into account work undertaken by the World Trade Organization and other international organizations

General Provisions

The **FTAA preamble** should mention sustainable development as an overarching objective of trade and economic policy. The preamble should also refer specifically to the need for a reinforced **environmental cooperation** system in the Americas in the context of increasing economic integration. The language should contain a clear commitment to implement such a cooperation programme and to develop a systematic cooperation between trade and environment policymakers, through regular mechanisms.

The agreement should refer to the **sovereign rights of States** to establish their own levels of protection. **Trade sanctions** should be specifically discouraged in the environmental sector, and replaced with fines or other mechanisms designed to improve environmental protection. Parties should commit to **upward harmonisation** of environmental standards and regulations. A 10-15 years agenda could be established to establish common standards and certification bodies in key sectors. Specific provisions should also be adopted to support more systematic enforcement of environmental standards and regulations by all Parties.

The relationship between **Multilateral Environmental Agreements** (MEAs) and the FTAA should be clarified. The FTAA should establish a mutual support relationship with MEAs and establish the **paramountcy** of trade measures adopted pursuant to a list of MEAs (CITES, Montreal Protocol, Basel Convention). The language of the agreement should be consistent with MEAs, especially with the Cartagena Protocol (agriculture) and the Convention on Biological Diversity (intellectual property). Lastly, a mechanism for the recognition of **business codes of social and environmental conduct**, with an appropriate incentives system should also be established by the agreement, to complement efforts made by the private sector.

Proposals Specific to the Nine Negotiating Group Agendas

The agreement should adopt a **pollution havens clause** that rejects the lowering of environmental standards as a method for attracting investment. In addition, investment provisions designed to guarantee investor rights should do so without being detrimental to environmental regulations (as has been recently the case with *NAFTA's Chapter 11*). The FTAA **disputes settlement procedures** should place the burden of proof in favour of maintaining environmental legislation that allegedly restricts trade against a legal challenge rather than operate as it does under the GATT. It should also include provisions allowing dispute-settlement bodies to gain access to environmental expertise when needed.

The agreement should systematically seek triple-win strategies that benefit trade, environment and development. Among these, the removal of trade-distorting, environmentally damaging **subsidies** should be a priority, especially in the fisheries and agricultural sectors. In addition, **trade in environmental technologies and services** should be liberalised, especially in the urban infrastructures sector. The FTAA should establish a mechanism for the recognition of environmental **eco-certification processes**, and support such certification with preferential treatment in **market access** and other incentives. This would support trade in green goods, especially in the forests and agricultural sectors (organic products, coffee). At the same time, the FTAA should support **cost internalisation** and recognise the value of services provided by ecosystems.

Strengthening Hemispheric Environmental Cooperation

There are over 272 environment and sustainable development accords in the Americas, which currently use measures relating to trade to achieve their goals. This system of interacting international accords lacks coherence and structure. However, we are currently witnessing an architectural shift in the environmental regimes. Increasingly, the Americas are being viewed in terms of five environmental sub-regions corresponding to sub-regional trade regimes. These broadly eco-regional groupings are: the Insular Caribbean, the Andean Zone, the Southern Cone, Central (or Meso) America and North America. A clear synergy therefore appears between the evolving regional structure of trade and environmental policy.

There is a need to strengthen environmental cooperation in the hemisphere, building on existing initiatives and institutional frameworks. The 1996 Bolivia Summit on Sustainable Development was a significant first step towards building extensive environmental cooperation in the Americas, as various sectoral initiatives were launched in its aftermath. However, no legally binding environmental accords were opened for signature in Santa Cruz. Implementation of the Santa Cruz Action Plan was also made difficult by its lack of focus, as well as weak political will, financial resources, and institutional capacity.

The Santa Cruz Summit Declaration

Recognizing that globalization, efforts toward integration, and the complexity of environmental issues pose challenges and offer opportunities to the countries in the Hemisphere, we pledge to work together. [...] We will adopt policies and strategies that will encourage changes in production and consumption patterns in order to attain sustainable development and a better quality of life, as well as to preserve our natural environment and contribute to the alleviation of poverty.

The Forum of Ministers of the Environment of Latin America and the Caribbean have recently identified three environmental problems which exert the greatest pressure, and could exacerbate the challenges to sustainable development in the Americas: deforestation, deterioration of the urban environment, and increased vulnerability to natural events. These issues must be addressed with adequate political will, and innovative financing strategies, building on the existing institutional frameworks. It is our proposal that a new '**Americas Ecological Accord**' (AEA) could act as an international legal and policy coordination body for this environmental agenda. The convening of the first meeting of Environment Ministers of the Americas in Montreal must be welcomed as a significant step towards a strengthened environmental cooperation agenda in the Americas.

Potential Areas for Increased Cooperation

The Americas environmental cooperation agenda should focus in its first stages of development, on frameworks to cooperatively address the most serious environmental challenges faced by countries of the hemisphere in a way that adds value and coordination to the existing regimes. In addition to environmental cooperation agenda items defined in Montreal, and in the context of increased economic integration, the following key trade and sustainability issues should be addressed in priority:

Capacity building in both governments and civil society should be central to support the implementation of this agenda. Programs can be put into place to strengthen institutions, promote networking, develop analytical tools, capacity in sustainability impact assessment methodologies, ability to generate accurate and informative outreach and educational materials, and empower citizen action at all levels. Capacity-building cooperation activities should also focus on enforcement of environmental law, and support upward harmonization of environmental standards and regulations.

The Montreal Ministerial Declaration

We intend to maximize the potential for mutually supportive policies regarding economic integration and environmental protection. Strengthening environmental management systems in our countries starting with improved knowledge, appropriate tools and incentives and better partnerships, is of the utmost importance. We intend to work, in particular, to ensure that the process of economic integration supports our ability to adopt and maintain environmental policy measures to achieve high levels of environmental protection.

Environmental **information systems** are gaining importance in the context of increasing integration, especially in trade-related or trade-sensitive sectors. Hemispheric scientific and environmental information, monitoring, analysis and access systems with compatible frameworks should be established and strengthened through capacity building. This could be a first step toward the development of a hemispheric “**state of the environment**” reporting system. In addition, a **compendium** of existing international environmental accords should be produced which surveys existing environmental management principles, provisions, trade measure, institutions and instruments in the Americas. Based on these new collective tools, a regime for the **joint-management of shared resources** could be built, especially for such resources as watercourses, forests, and biodiversity, especially in trade-sensitive areas.

Governments of the hemisphere should work standardizing **impact assessment** and other sustainable development methodologies, including those for collection of data, joint training of border officials, and other efforts. These tools could also be used to monitor trade-induced or trade-related impacts on the environment. Based on results, cooperation should be developed in managing **transportation corridors**, including impact monitoring and designing mitigation tools and policies.

The strengthening of **sanitary and phytosanitary** systems should also become a priority, in light of recent epizooties. **Biosafety** should also become a priority as trade and economic integration multiply the risks associated with the dissemination of invasive species and genetically modified organisms. Environment and trade ministries should collaborate to develop a coherent and workable application of the **precautionary principle**. This will be key to avoid both irreversible environmental damage, and potential trade disputes.

Governments should cooperate in shifting the traditional regulatory approach to environmental policy to a **market-based approach** relying on the use of **economic instruments**. This shift would send appropriate signals to the market and avoid trade-distorting effects of traditional regulations. It could be especially relevant in the energy sector where appropriate incentives and fiscal policies could support the development of **renewable energy**. In addition, **certification processes** should be developed, with appropriate capacity-building measures supporting local communities and producers to adapt their practices to the production of *green goods*, and allow them to increase their shares of this fast growing market.

Creating a High Level Hemispheric Experts Group on Trade and Sustainability

The Need for An Independent Bridging Mechanism

The FTAA Committee on Civil Society created after the San José Ministerial will be strengthened in the next few months as a result of the Buenos Aires mandate. However, concerns remain that the new processes that will eventually be established will not provide for effective channels for expert dialogue and policy recommendations. The current difficulty in establishing such a dialogue within the official intergovernmental process has led many groups and analysts to suggest the creation of an independent and open roundtable for dialogue on trade and sustainability.

It is recommended that a High Level Experts Group be established with appropriate participation from hemispheric institutions such as the OAS, ECLAC, the IDB, and FTAA Secretariat, and sub-regional organisations such as UNEP-ROLAC, NACEC and others. Government, industry, and civil society experts should also be adequately represented. Overall representation should also be geographically balanced.

The Expert Group would be designed as a non-advocacy mechanism to facilitate comprehensive policy dialogues among the different interests, sub-regional perspectives and sectors. It would serve three essential functions:

Promote informed, constructive dialogue on trade and sustainability issues, and build consensus on a focused agenda that would be built upon hemispheric trade and environmental policy frameworks.

Undertake an agenda of research, analysis and identification of hemispheric policy options, which will obtain support from essential actors and institutions.

Support information sharing, networking and outreach, and provide a mechanism for capacity building and knowledge building on these new issues.

Defining the Parameters of a High Level Hemispheric Experts Group

The Experts Group should have an institutional base in each of the five sub-regions through a focal points mechanism. It would be linked by extensive Internet-based data and information sharing systems, and promote Internet-based discussions. It could eventually be given a status similar to the Americas Business Forum in the FTAA process, or other similar ventures.

A centre or institution should also be created with a mandate to undertake capacity building within civil society, especially in Latin America and the Caribbean, to ensure balanced participation of sub-regional components of hemispheric civil society. This institution would support increased information analysis and flow, and provide technical support on sustainable development issues for the FTAA negotiators, environmental negotiators and inter-governmental agencies in the Americas.

The Hemispheric Experts Group on Trade and Sustainability should interact very closely with the FTAA process, as well as with environmental cooperation processes. In that perspective, the Expert Group could play a significant role in shaping and carrying out an *ex ante* FTAA impact assessment. In order to support the work of the group, trade and environmental processes should implement improved transparency and participation mechanisms. The information-release and transparency policy announced at the FTAA Buenos Aires Ministerial meeting is a significant step to

The Buenos Aires Ministerial Declaration

We reaffirm our commitment to the principle of transparency in the FTAA process and recognize the need for increasing participation of the different sectors of civil society in the hemispheric initiative. We are grateful for the contributions made by civil society in this stage of the negotiations of the FTAA and urge civil society to continue to make its contributions in a constructive manner on trade-related issues of relevance to the FTAA. [...] In this connection, we instruct the Committee of Government Representatives on the Participation of Civil Society to foster a process of increasing and sustained communication with civil society.

provide a meaningful opportunity for civil society to participate in the development of the trade agreement. In a similar manner, access to environmental information must become a fundamental goal in the Americas.

A proposal should be developed as to the structure, timing and participation in such a High Level Experts Group to examine cutting-edge, innovative issues of trade and sustainability. It is proposed that preliminary discussions be initiated before the end of 2001 with the aim of creating an Expert Group in 2002.

Seizing the Quebec City Opportunity

The Summit of the Americas is a unique forum where trade and environment policies can be integrated in a coherent set of priorities. As the FTAA process is entering a crucial development period, the Quebec City Summit constitutes a critical occasion to reintegrate trade and environmental policies in a coherent package. The orientations taken in Quebec City will generate impacts for many years ahead; therefore policymakers must address this coordination challenge with the highest interest. The Montreal and Buenos Aires Ministerial meetings opened doors in terms of improved transparency and strengthened environmental cooperation. A hemispheric trade and sustainability agenda must be built on these positive advances.

Public support for trade liberalisation has been hanging in the balance since the Seattle events. By addressing trade and sustainability issues, and opening meaningful channels for civil society participation, the FTAA would start delivering its fruits to more than 800 million citizens. This social/environmental *early-harvest* approach has the potential to break the zero-sum relationship which is gradually developing between a growing part of civil society and trade and economic international forums and processes.

The Quebec City Summit also has the opportunity to send a clear signal that the time has come to move beyond zero-sum thinking in trade and environment policy by announcing the intention of the countries of the Americas to address these questions through cooperation channels rather than through the traditional conflicting trio: sanctions – competitiveness – protectionism. By sending these signals, the Quebec Summit would do much to improve trade and environmental policy in the years ahead.

This document was released in Quebec City by Pierre Marc Johnson, Enrique Leff, and David Runnalls, Chairs of the Hemispheric Trade and Sustainability Symposium on April 18, 2001. The Symposium Chairs wish to acknowledge the contribution of the symposium directors, Marie Claire Segger and Karel Mayrand to the development of these policy recommendations. For additional information, please contact Marie Claire Segger mcsegger@iisd.ca or Karel Mayrand karel.mayrand@iucn.ca.

The Hemispheric Trade and Sustainability Symposium gathered 180 expert participants in Quebec City on April 17-19, 2001, prior to the third Summit of the Americas. It was organised jointly by the International Institute for Sustainable Development (IISD), and The World Conservation Union (IUCN), in collaboration with the United Nations Environmental Programme – Regional Office for Latin America (UNEP/ROLAC). Partner institutions included the North American Commission for Environmental Cooperation (NACEC), the Canadian National Roundtable on the Environment and the Economy (NRTEE), and the International Development Research Centre (IDRC). The symposium was made possible through the generous support of the Government of Canada through the Department of Foreign Affairs and International Trade, the Canadian International Development Agenda, and Environment Canada. Corporate sponsors included Tembec through the Canadian Forest Products Association; Placerdome through the Mining Association of Canada; and Pan Canadian Petroleum through the Canadian Association of Petroleum Producers.