Report on

Trade, Environment and Development Co-operation

April 1998

SWEDISH INTERNATIONAL DEVELOPMENT
COOPERATION AGENCY

Department for Infrastructure and
Economic Development

Table of contents

Part 2: Proposals

Abbreviations

ACP	Africa, Caribbean and Pacific
CAP	Common Agricultural Policy (EU)
CTE	Committee on Trade and Environment
DAC	Development Assistance Committee
EU	European Union
FSC	Forestry Stewardship Council
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GSP	General System of Preferences
IFOAM	International Federation of Organic Agricultural Movement
ILO	International Labour Organisation
IMF	International Monetary Fund
ITO	International Trade Organisation
IUCN	World Conservation Union
MEA	Multilateral Environmental Agreement
MFN	Most Favoured Nation
MSC	Marine Stewardship Council
LDC	Least Developed Countries
OPEC	Organisation of Petroleum Exporting Countries
OECD	Organisation for Economic Co-operation and Development
PPM	Process and Production Methods
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TNC	Transnational Companies
TRIP	Trade Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WTO	World Trade Organisation
WWF	World Wildlife Fund

Summary

Part 1 – Background report

Sida has been commissioned by the Swedish government to "put forward proposals during the course of 1997 for ways in which Sweden and the EU via trade and aid policies, can support developing nations in the manufacture and export of environmentally friendly products that promote environmental and economic development".

The investigation is made up of two parts. The first comprises a background report on the situation for trade and the environment seen from a developing nation perspective. In the second part of the investigation concrete proposals are presented setting out how Sweden and the EU can support developing nations in the transition to environmentally sustainable production and the export of these goods.

Trade and the environment is a complicated area. There is no comprehensive analysis available today and the investigation therefore presents a precis of the information available on the production and domestic sales of, and export opportunities for environmentally friendly products in developing nations. The market situation for these products and the political barriers to trade exports from developing nations is also considered.

Environmental problems

Many developing nations have severe environmental problems which are related to the export industry. Production of vital export commodities such as coffee, tea and textile and clothing products causes pollution. Many components and additives which are banned in industrial nations are still used in developing nations. Within the field of export crop production, the chemical intensive monoculture destroys the soil and the biodiversity. Insecticides and sewage pass into waterways and can pollute the subsoil water.

Another of the many problems faced by developing nations is that their industries are often wasteful of water resources, which means that the surrounding population can suffer water shortages.

It is difficult for developing nations to make the transition to environmentally acceptable manufacturing methods. The reasons for this include a lack of capital, technology and know how.

Market forces tend to play an increasingly important role in forcing through environmental demands. Via international trade these environmental demands are spreading to developing nations, in the first instance, through demands placed on their export industry. Companies that cause pollution and have inefficient production processes, use harmful additives, and exploit their labour force, are subjected to increasingly tough demands from consumers, and risk being rejected in the long term. Which means offering environmentally acceptable products will increasingly become a competitive advantage.

Global economy

The freer movement of trade and capital in the past decade, together with advances in technology, has meant the global market has expanded to include a growing number of developing nations. This has led to a higher standard of living for a large proportion of the population in many of these countries. On the other hand, the least developed countries (LDC) have not gained the benefits brought by the global economy, to anything like the same extent. These countries account for just 0.4% of world trade, a 50% reduction since 1980.

Stable and predictable playing rules for the economic players are a basic necessity for international trade. The multilateral regulatory framework for trade has been established by the WTO (World Trade Organisation), an umbrella organisation for the various sets of rules which together make up the multilateral trading system. The WTO supervises the application of the various trading agreements and acts as a forum for multilateral trade negotiations, and resolving disputes. Many developing nations, and LDC nations in particular, play a minor role in global trade and are therefore dependent on being able to put their trust in the WTO.

Trade barriers

International trade is affected by a series of measures which can be divided into tariff and non tariff trading barriers. Tariffs have been reduced through WTO agreements, while the non tariff barriers have assumed a greater significance and changed in character.

A long series of negotiations within WTO/GATT has helped reduce the tariffs and other obstacles to trade that confront export products from developing nations to the industrialised world. Despite this, and despite especially favourable rules for the LDC nations, in many cases, exports are made difficult due to the fact that trade in the export products most important to developing nations, has often been liberalised the least.

Within the legislatory framework of all countries, there are rules governing the appearance of goods, in respect of both health and safety and the environment. In a trading context, such regulations (standards and technical directions) are called technical obstacles to trade. Within the WTO, regulations have been agreed to avoid these being exploited as obstacles to exchange of trade. Many developing nations have difficulties in meeting the technical product specifications of import countries.

GSP – preference system for developing nations

The general system of preference (GSP) has been introduced to favour the exports of all developing nations and means that the least developed nations are granted specific preferential treatment (lower tariffs). It is primarily the most advanced developing nations that have been able to exploit this preference system to a significant degree. The preference opportunities to developing nations are determined individually by each country granting such preferences, which has resulted in the development of a large number of different systems covering different goods and levels of preference. One requirement for granting preferential treatment is that the good's country of origin can be identified. Which has all helped make the GSP rules more intricate and further complicates the system of trade.

The GSP systems are often structured such that the benefits are difficult to exploit in practice. The country of origin rules make the manufacturing industry's products more difficult to export i.e. due to the demand to label the original source of the goods. The various countries offering preferential treatment have mostly elected not to grant preferential status to goods they consider to be sensitive to competitors. In practice, this means that the GSP benefits granted are least generous to those products that are the most important for developing nations to export. The textile industry is faced by import quotas and agricultural products are, for the most part, excepted.

The EU had ruled on the possibility of introducing a "green GSP", which will mean that products developed in accordance with internationally agreed environmental criteria are to receive especially advantageous treatment. Negotiations are currently ongoing within the EU on the form a green GSP for tropical timber should take.

EU trading policy and the developing nations

Sweden is tied to the common EU trading policy today. The EU rules for trade with developing nations are complicated and differ for different groups of nations. For LDC countries tariff free trade applies, with certain exceptions. There are, however, certain non tariff related trade barriers, in the form of "security clauses". As a whole, the EU trading rules for developing nations are considerably more restrictive than Sweden's trading rules pre EU entry. As such, Sweden has an important role to play in seeking to influence the EU to relax its rules for imports from developing nations.

In certain cases, the EU policy is directly contradictory in the sense that the trade and aid policies are incompatible with each other. The aid policy aim of stimulating sustainable development and increased exports can be obstructed by restrictive elements within EU trade or agricultural policies.

For example, the export of ecological products is subject to special control requirements in accordance with a special EU regulation (no. 2092/91), in addition to the same trading policy obstacles as other production. These control requirements are shaped in such a way that they are impossible for developing nations to meet in practice.

Environmental demands and trading agreements

It is incompatible with WTO rules to restrict imports by referring to the environmental effects of production. Within the WTO, discussions are currently ongoing on how trade and environment policies can be "mutually supportive". In particular, the discussions have come to revolve around the relationship between trading measures in international environment conventions and the WTO regulatory framework.

Many developing nations perceive the environmental rules of the industrialised nations as "green protectionism", trading obstacles designed to further exclude developing nations from industrial nation markets. They argue that the industrialised nations place unreasonable demands on products and even try to influence methods of production, that such environmental demands are a throwback to colonial times and a tactic aimed at preventing the developing nations from competing and developing. This has helped make many developing nations highly sceptical towards discussions on trade and the environment within the WTO.

The eco labelling jungle

Eco labelling aims to give consumers the opportunity to base their purchases on information about a product's environmental impact, and to persuade the producers to develop products that are less damaging to the environment. In this way, consumption and production will be steered towards goods that have less negative impact on the environment. In order to make these labels more credible, the information on the environmental attributes of the products must be quality assured.

A very tiny proportion of the goods labelled as environment friendly come from developing nations. The exception is ecologically grown crops such as coffee and tea, and products from sustainable forests.

It is difficult for developing nations to market their environment friendly products. Marketing channels have not been developed and there is a lack of uniformity amongst labelling standards, procedures and requirements amongst different industrialised nations. The various European systems have one common denominator: it is extremely difficult for a developing nation company to gain certification according to any of them.

Growing market

The export market for environment friendly goods from developing nations is growing. Marketing goods manufactured in an ecologically and socially sustainable way therefore offers developing nations an opportunity to become more competitive.

There are many potential “new” market opportunities. Synthetic materials can be replaced by natural ones. Jute and sisal can be used instead of artificial fibres, and colour grown cotton can replace chemical intensive artificially dyed cotton. One of several positive examples is Century Textiles of Bombay, the largest textile company in India. When their products gained Öko-Tex certification, they were able to raise their prices by 8–10 per cent, and the market grew by 10 per cent.

The market as environmental force

The increasingly important role eco labelling plays in the industrialised nations shows that consumer power can influence the move towards more environment friendly production.

Globalisation has given consumers greater scope to gain a knowledge and understanding of conditions in the producer countries. Consumer awareness of environmental issues often remains low in the developing nations.

This lack of environmentally aware consumers, plus a shortage of buying power, means that the home market for environment friendly production in the developing nations is small. Companies whose production is geared to the domestic market therefore have only a limited interest in making their production methods and products environment friendly. The export oriented companies are often transnational whose production is not sold on the domestic market. The transition to environment friendly production is therefore often considered to be a purely export requirement, which helps widen the gulf between North and South in trading organisation discussions. Government representatives in the South frequently fail to grasp that environmental demands are actually voluntary market demands rather than covert obstacles to trade.

Public spending

Public spending, i.e. purchases made by government, local authorities and similar public bodies, is very extensive. In Sweden, tenders to supply public authorities are subject to rigorous environmental demands. If such tenders within the EU were subject to similar environmental demands, this could offer a major breakthrough. There is a risk that exporters and sub suppliers from developing nations would find it difficult to compete. But if the rules and criteria were formulated such that they did not pose unnecessary problems for exporters from developing nations, public tenders could in time, assist in the transition to environment friendly production in the developing nations too, as the market would be both larger and more stable.

The importance of environment friendly production

The efforts of companies in the industrialised world to develop an environment friendly profile have been a major factor in influencing exporters and manufacturers in developing nations. Swedish companies such as Hennes & Mauritz, KappAhl, IKEA and OBS place both environmental and social demands on their suppliers as a condition of doing business. These demands are not as rigorous as for eco labelling, but it is these demands which pose the greatest challenge for developing nation exporters as they represent the major volume of export goods. Those companies unable to meet these demands are expected to face great difficulties in competing with more environment friendly exporters.

Part 2 – Proposals for action

Trade and aid policies

Within the political arena for trade concerning the environment and developing nations, Sweden's main goal should be that:

- trade, aid and environment policies should be mutually supportive in seeking to integrate the developing nations into the global economy and promote sustainable development.
- Within the EU, Sweden should campaign for the abolition of tariffs and removal of import quotas for all products from LDC countries.

To facilitate the export to Sweden and the EU of environment friendly products from developing nations, the report proposes a number of measures, including the following:

- To encourage the transition to ecological production, Sweden should campaign for an investigation into the potential for, structures for, and consequences of introducing a green GSP for agricultural products.
- To increase the opportunities for developing nations to export ecological products to the EU, the EU should accept the IFOAM criteria for ecological products.
- Trade and environment issues should be given greater prominence in Swedish aid with respect to the significance of the link between trade and environmental issues for development, not least in the least developed countries.
- Aid should support the production and export of environment friendly production in the developing nations.

Proposals for areas of action within aid

- Support for the development of institutions
- Support for environment and consumer organisations
- Support for companies, principally small and medium size enterprises, to make their production environment friendly.
- Support for sector co-operation between industrial nation and developing nation organisations.
- Export promoting initiatives
- Support for the development of an infrastructure for the certification of, and transition to, environmental friendly production.
- Co-operation between international and national organisations.
- Research support

Areas where further investigation is proposed

- The production and export situation in LDC countries
- The effects on the conditions for exports from developing nations and the possibilities of achieving the sustainable development of TRIPs (Trade related aspects of intellectual property rights) and GATS (general agreement on trade in services).

Part 1

Background study for the investigation into Trade, environment and development co-operation

1 Background

In a regulatory letter from the Swedish government, Sida was commissioned to:

> *"during the course of 1997 produce proposals for how Sweden and the EU, via both trade and aid policies, can support developing nations in the manufacture and export of environment friendly products which promote environmental and economic development".*

1.1 The investigation's aim and direction

Part 1 of the investigation will present a background description comprised of the information available on the situation for production, domestic sales and export opportunities for environment friendly products in the developing nations. The market situation for environment friendly products in Sweden and other EU markets will be illuminated. The trading policy situation for exports from developing nations will also be illuminated.

Based on this background description, *part 2* of the investigation will recommend ways in which Sweden and the EU can support the transition to environment friendly production and promote the export of environment friendly products. The investigation will also suggest how the interests of the developing nations can be promoted within the area of trade and the environment through aid initiatives.

1.2 The investigation's implementation

The investigation has been commissioned by INEC, (Ac). The project director is Elisabeth Löfvander, INEC/HIK.

The following were co-opted onto the investigation:

- a project group comprised of Elisabeth Löfvander and Ann Jennervik (INEC), Inge Gerremo (Natur) and Jan Rudengren (consultant, SPM);
- a steering group from Sida comprised of Astrid Dufborg, Agneta Danielsson INEC, Mats Segnestam, Anders Höök NATUR, Lars Johansson Policy, Anders Granlund, SAREC;
- a reference group comprised of representatives from the Swedish Foreign Office, the Environment Department, Industry Department, Home Office, the Swedish Board of Commerce, the Nature Conservancy Board, Swedac, the Association of Wholesalers-Swedish Trade, the Association of Industry, the Textile Importers, the Association for fair labelling, KRAV/Grolinkk, SIS and Forum South.

Since the investigation was considered by the board and forwarded to the Swedish government in December 1997, a new version has been produced with a number of corrections, based on the viewpoints of the Foreign Office, Environment Department, Home Office, Ministry of Agriculture, the Swedish Board of Commerce and the Association for the Conservation of Nature.

1.3 Introduction

The nations of the world are becoming increasingly dependent upon each other. Globalisation has accelerated in recent decades. This is manifested in increased trade, global companies and large movements of capital unrestricted by national borders. New communications technology and the deregulation of world trade have had a major significance in this process. Globalisation has brought about substantial changes in the economies and political systems of every nation. It is no longer so easy for individual countries to pursue an independent economic policy, which means limited political and economic diversity. What happens in the world economy rapidly affects economies at a national level. Environmental issues have been similarly globalised as environmental effects do not recognise national borders.

The increasing environmental awareness in the western nations has led to tougher environmental demands on products and production. Demands are made by authorities, environment organisations, importers, producers and consumers. The growing influence of consumers has also increased the environmental demands on producers. Projecting an environment friendly and ethical profile is becoming an increasingly powerful sales argument for a company's products. Certain companies also claim that consumer demands and a company's need to have a good image (a strong brand) are just as important, if not more so, than government legislation to force through demands to improve the environment.

In many developing nations, the general level of environmental awareness is low. The people who manufacture the products, i.e. factory and farm workers, are the ones most exposed to the effects of environmentally harmful production methods. They are often ignorant of the health risks of using chemicals for instance, and often have little opportunity themselves to influence their working environment and immediate surroundings. The poor in developing nations are also hard hit by environmental pollution in their neighbourhood.

A transition to environment friendly production in developing nations would therefore be an extremely important factor in improving both the working and living environments, and with it the general health of the local population.

Products that are not environment friendly are expected to experience difficulties in finding a ready market in the industrialised world in the future. For developing nation producers and exporters, new environment demands can be perceived as trading obstacles that are hard to meet. Along with trading policy measures such as tariffs, quotas, farming subsidies etc., environmental demands are perceived by many developing nations as a handicap which hampers their chances of gaining greater market access.

1.3.1 Contents and limitations

The aim of this report is to provide a summary account of the market access situation for developing nations with the focus on the export potential for environment friendly products, plus Swedish and EU policy and actions within this area. The investigation focuses on environment friendly production, but in order to describe the trading situation for such products, a general description of the trading rules for all production is also provided as these rules also apply to environment friendly products. The report is also intended to prove a quick summary of the numerous concepts, tendencies, rules, agreements etc. which affect the area of trade and the environment. This area is extremely comprehensive and many parts of this study deserve their own special investigation[1]. The background description forms the basis for proposals for how Sweden's policy and strategy should develop, and the program of action for aid within the field of trade and the environment.

We wish to make clear here that the following areas will not be considered by this investigation:

- the concept of sustainable development;
- poverty and the environment;
- the balance between organic farming and the need to significantly increase the world's food production
- the complex issue of gene technology, which brings with it new products and new technology;

[1] The report puts forward proposals for investigations which in the opinion of the investigation team should be undertaken within the area of trade and the environment

- trade related aspects of intellectual property rights (patents, copyrights, trade marks, etc.);
- tourism and trade related services.

2. Trading policy related relationships

2.1 What is trade

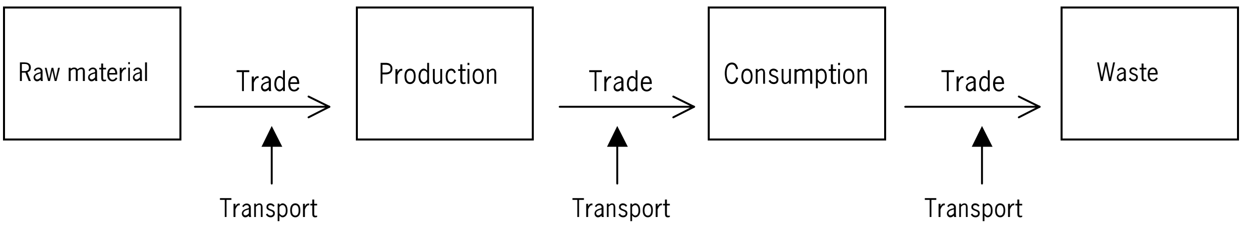
Trade – the exchange of goods and services – occurs at several different levels in society: between individuals, groups, regions and countries. Trade can occur at several stages in the life cycle of a product: on production and consumption, and when the product is discarded or recycled.

There are several theories which explain the rise of international trade. The classical theory is based on comparative benefits, which argues that certain countries have a relative advantage (lower costs) in producing a certain product dependent on manufacturing factors in the specific country. Countries with relatively cheap labour tend to produce labour intensive goods, and countries with relatively cheap capital tend to product capital intensive goods. In order to meet the demand in each country for both types of goods, trade arises between these countries. In response to rising demand, the producers increase the supply of the product which is cheapest for them to produce, the market expands and prices fall. Trade therefore offers socio-economic efficiency gains.

An ever increasing share of world trade takes place between countries which have relatively similar access to production factors and a similar supply of goods and services. Trade theories which explain this pattern of trade are based on the premise that consumer preferences vary and therefore there is a demand for differentiated goods, which leads to a diversification of production. The higher the income level in a country and the more similar income levels countries have, the larger the share of the total exchange of trade that occurs between companies in the same sector and within companies.

By reducing duties, and non-tariff related trading barriers, the socio-economic efficiency gains of trade can be increased. Sweden has for many years promoted moves to liberalise trade, as we, as a small country, are dependent on foreign trade for continued economic growth and development. Against the background of these experiences, Sweden is now working to encourage all developing nations to become members of the World Trade Organisation WTO. Opinions on which trade policy best promotes the interests of a developing nation have varied considerably over time. Many countries used to operate a so called import substitute policy. They sought to build up a domestic industry by employing measures such as high import tariffs. More recently, a growing number of countries have pursued a principal policy of increasing exports instead. Trade in general is often liberalised in connection with this. Sweden is one of the countries which are encouraging this.

***Figure 2.1**: The role of trade in the life cycle of a product*



Source: SOU 1993:79

All foreign trade is surrounded by regulatory frameworks concerning which goods may be traded and agreements on regulations governing imports and exports. When we talk of free trade, in general we mean trade in goods across national borders which are free of duties and quantitative restrictions. The past decade has seen a major liberalisation of world trade. Despite this, trade today remains highly regulated and totally free trade exists virtually nowhere.

2.2 Tendencies with the area of trade

2.2.1 Globalisation

For the first time in world history the Earth's population is linked together in a global network, thanks to liberalised trade and the deregulation of capital, plus better communications which make people, goods and services more mobile. Transnational companies constitute an important part of this globalisation. Today they are estimated to number over 40,000, and they account for two thirds of world trade, of which a large part takes place within the companies. The largest companies have a stock market value greater than the value of the total GNP in many developing nations. These companies therefore have a very significant influence, even politically, in the countries in which they operate.

The close interweaving of national economies means it is more difficult for individual countries to pursue an economic policy radically different from the world outside. Globalisation is therefore a powerful driving force for a more uniform economic policy. Globalisation also brings with it increased unanimity on criteria concerning e.g. environment issues and democracy. Together all this is expected to result in increased growth in the world economy, which favours the developing nations as a group.

Globalisation shows both the opportunities and the risks for economic development in different developing nations. There is a risk that the very poorest of the developing nations will not be able to exploit the benefits of a global economy, and so fall even further behind. Economic growth in the developing nations that have already developed quickly will probably accelerate. In so doing, the gulf within the group of developing nations can increase. A similar differentiation between the rich and poor can also arise within these countries. It is therefore an important task for aid agencies to support the least developed nations in preparing to exploit the opportunities that globalisation brings, and so reduce the income gap between more and less developed developing nations. Supporting the development of a welfare policy, will increase the likelihood of the opportunities for economic growth that globalisation can bring, benefiting the entire population.

The free movement of capital and the increasing capital accumulating in large pension funds has led to greater demand for investment vehicles. There is major competition between developing nations to attract these private investments. Fund managers are looking for both a high return and investment security, and as the most developed developing nations offer the least risk, these have a competitive advantage compared with the least developed countries. The LDC countries are often distinguished by factors that are off-putting for investment: inadequate market reforms, small markets, a poorly developed infrastructure and an absence of credible financial legislation. The competition for investment funds has encouraged developing nations to offer companies various benefits, such as tax breaks, or weak labour and environment legislation. This erodes the positive ripple effects of such investments in the host country.

These tendencies within the group of developing nations must be taken into consideration when aid and trade policy decisions are made. Where the poorest developing nations can be favoured, they should be given special positive treatment and supported in building up their capacity to exploit the opportunities trade offers.

2.2.2 Trends within world trade

There has been strong growth in international trade since the second world war and this growth has been greater than total production. World trade (exports) doubled between 1980 and 1994 (table 2.1). The largest growth has been amongst the developing nations considered as a group. However there are major differences between the various developing nations. Countries in Asia have enjoyed very strong export growth, almost four times greater than growth in world trade on average. Latin American countries have increased their exports, but this rise has been below the average. The African countries deviate from this trend towards increased trade by having negative development. Their exports have fallen by 13.5 per cent. The OPEC countries, East Europe and the former Soviet Union also showed a drop in exports –40.5 per cent and –5.6 per cent respectively.

Table 2.1 *Changes in world exports 1980 – 1994 (USD millions, fixed prices)*

	1980	1994	% annual change	% change 1980–94
World	**2 001 958**	**4 229 375**	**5.1%**	**111.3%**
Developed nations	1 267 872	2 898 326	5.7%	128.6%
Developing nations(excluding OPEC)	251 823	1 002 165	9.6%	298.0%
Africa	84 578	73 173	–1.0%	–13.5%
Latin America	125 939	190 346	2.8%	51.1.%
Asia (excl Middle East)	150 655	779 991	11.6%	417.7%
OPEC	306 770	182 514	–3.4%	–40.5%
East Europe and former Soviet Union	155 115	146 369	–0.4%	–5.6%

Source: UN International Statistics Yearbook

2.2.3 The trading situation for the least developed countries (LDC)

Trade with the least developed countries[2] (LDC) makes up a very small proportion of world trade today. The LDC countries comprise 48 of the world's poorest nations. They have a total population of 570 million people, which makes up 12 per cent of the world's population. The value of LDC exports was USD 22.2 billion in 1995, the equivalent of 0.4 per cent of world trade[3]. This amounts to less than half their share in 1980, which was 0.8 per cent. The LDC countries' share of total exports from developing nations was just 1.6 per cent in 1995. By way of comparison, it is worth mentioning that the total value of LDC exports in 1995 was the equivalent of barely a third of the value of Swedish exports in the same year. The EU is the most important single export market for the LDC countries. The trade policy pursued by the EU is therefore of the utmost significance for these countries.

There are many reasons why the LDC countries' share of world trade is shrinking, and these can vary from country to country. Several so called external reasons are difficult for the countries themselves to influence, such as forcing down the price of raw materials, expensive transport and the trading policies pursued by other countries. Other reasons can be traced to the countries themselves. Inadequate economic policy and legal frameworks, poorly developed customs service, poor efficiency in harbours, weak general infrastructure, social instability, a lack of processing capacity and difficulties in producing competitive products are just a few examples of domestic reasons. The LDC countries also levy high tariffs against each other, which prevents the development of internal trade within this group of countries. Most LDC countries have been in a deep debt crisis for many years. As a consequence of this, the World Bank and International Monetary Fund (IMF) have initiated restructuring programs in these countries. These programs aim to make the developing nations more compatible with the market situation in the outside world, through such measures as deregulation and lower import tariffs, and so enhance their export potential. To date, these programs appear not to have been able to reverse the trend for LDC countries to have a declining

[2] According to the UN classification, the following are LDC countries: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Central African Republic, Chad, The Comoros, Congo, (ex Zaire), Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea Bissau, Haiti, Cambodia, Cape Verde, Kiribati, Laos, Lesotho, Liberia, Madagascar, Malawi, The Maldives, Mali, Mauritania, Mozambique, Myanmar (Burma), Nepal, Niger, Rwanda, Samoa, Sao Tomé and Principe, Sierra Leone, The Solomon Isles, Somalia, Sudan, Tanzania, Tog, Tuvalu, Uganda, Vanuatu, Yemen and Zambia.

[3] OECD, 1997

share of export markets. The situation for African countries, an important group within the LDC countries, is described below.

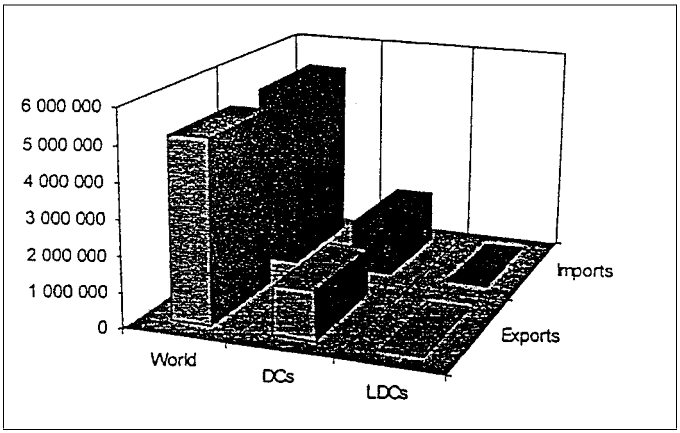
- To get a better understanding of the situation for exports from LDC countries, we suggest this is further investigated.

Africa

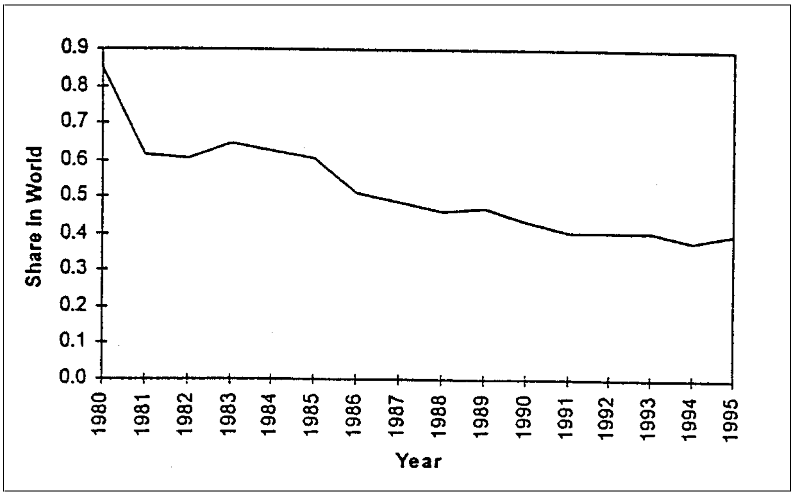
The developing nations in Africa accounted for around 5 per cent of world trade in 1980. Fifteen years later, this share has fallen to barely 2 per cent (Appendix 1). Africa is not just falling behind in the development of world trade, the African states are going backwards in absolute terms. In other words, the African states are becoming increasingly marginalised in the development process. Helping these countries to reverse this development is an important challenge facing Sweden and the EU. Trade policy measures that are especially favourable for the LDC countries and with it Africa, can play a major role, as can aid initiatives that seek to enable an increase in exports.

Figure 2.2 *The least developed countries' share of world trade*

LCDs' participation in world trade, 1995 (in million US$)



The declining share of LCDs' exports in world exports, 1980–95



Source: OECD, 1997

2.2.4 The EU's foreign trade – Imports

Despite the fact that the EU has expanded with new member states joining between 1980 and 1994, exports from developing nations to the EU have enjoyed weaker growth than developing nation exports to the rest of the world. However, in contrast to exports for the world as a whole, African exports to the EU have increased slightly.

Table 2.2 *Developing nation exports to the EU, 1980–1994 (fob mill US$)*

	1980	1994	% annual change
Dev. nations (excl OPEC)	57 673	175 470	7.7%
Africa	38 614	41 226	0.4%
Latin America	19 726	33 688	3.6%
Asia (excl Middle East)	24 270	108 880	10.5%

Note: Between 1980 and 1994, Greece, Portugal and Spain became member states
Source: UN, International Trade Statistical Yearbook

2.2.5 Sweden's foreign trade – Imports

Sweden imports almost exclusively from the industrialised nations. In 1994, Europe, North American and Japan accounted for 90 per cent of Sweden's imports. This proportion has remained relatively constant throughout the 1980s and 1990s. Certain changes have occurred with respect of the breakdown of imports. The more developed developing nations – the tiger economies – (Hong Kong, Singapore, South Korea and Taiwan) have increased their exports, while the proportion Sweden imports from South American and Africa (excluding Libya, Nigeria, South Africa) has declined. Africa's share of Swedish imports in 1994 was just 0.4 per cent, which is a 0.1 percentage point drop since 1980. Although the share has fallen, the volume of imports has doubled (122%) during the same period.

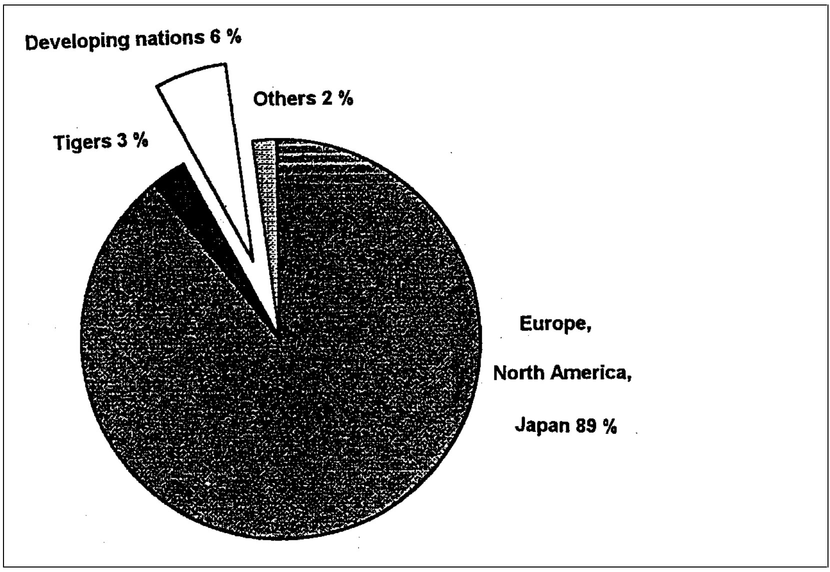
In other words, the poorest developing nations have seen their already marginal share of Swedish imports fall, a tendency which corresponds with the overall development of world trade.

Table 2.3 *Sweden's imports, 1980, 1990 and 1994*

	1980	1980	1990	1990	1994	1994
Area	m SEK	%	m SEK	%	m SEK	%
Europe	101 386	71.6%	248 477	76.7%	301 194	75.5%
North America	11 640	8.2%	30 226	9.3%	36 643	9.2%
Japan	4 057	2.9%	16 518	5.1%	18 968	4.8%
The Tiger Economies(1)	2 460	1.7%	10 239	3.2%	11 283	2.8%
China	452	0.3%	2 633	0.8%	8 386	2.1%
Dev nations Asia (2)	1 087	0.8%	3 282	1.0%	6 507	1.6%
Africa (3)	740	0.5%	1 382	0.4%	1 649	0.4%
Latin America	5 124	3.6%	6 008	1.9%	6 996	1.8%
Others	14 695	10.4%	5 110	1.6%	7 526	1.9%
Total	141 641	100.0%	323 875	100.0%	399 152	100.0%

Source: SCB, Statistical yearbook.

Figure 2.3 *Sweden's imports 1994.*



Source: SCB, Statistical yearbook.

2.3 WTO[4]

2.3.1 Background

The growth of world trade after the second world war can largely be considered a result of a deliberate policy to remove protective tariffs and other trade barriers. To avoid the economic problems experience between the two world wars, three organisations were founded after the second world war whose task it was to secure economic growth and avoid economic conflicts between states. These were the World Bank, the International Monetary Fund (IMF) and the International Trade Organisation (ITO). The ITO's regulations were adopted but never ratified. In parallel with the ITO discussions, tariff reducing negotiations were held in Geneva which led to the GATT agreement (General Agreement on Tariff and Trade). During the life cycle of GATT (1947–1994) eight agreements on tariff reductions and other trade related agreements were signed. The Uruguay Round was the last of a series of negotiations which led to the founding of WTO, (World Trade Organisation).

2.3.2 The role of the WTO

The WTO embraces 131 countries and areas (March 1997), who account for over 90 per cent of world trade. Other countries have applied for membership, including China, Russia, the Baltic states and Saudi Arabia. WTO is administered by a secretariat in Geneva.

The WTO can be said to act as an umbrella organisation for the various regulatory frameworks which together make up the multilateral trading system and is the focal point of the daily trading policy intercourse between the member countries. The goal for the WTO is that the member countries should attain a higher standard of living, full employment and increased production and trade, through more liberal trade.

WTO supervises the application of the different trading agreements and acts as a forum for multilateral trade negotiations. The WTO has a central role in resolving trade policy conflicts between member nations. The WTO's system for resolving disagreements is more effective than the previous system within GATT, as it is more powerful and can be applied uniformly for all agreements

[4] The principal source for this section is Kleen, 1996

reached within the organisation. The WTO co-operates with the World Bank and the International Monetary Fund in order to achieve a more harmonised global economic policy.

The regulatory framework within the WTO is made up of several parts. The core is GATT, which contains the basic trading policy rules and principles for the trading of goods. The agreement on trade in services, GATS (General Agreement on Trade in Services) is new as is e.g. TRIPS (Trade-Related Aspects of Intellectual Property Rights), which is a regulatory system which contains minimum standards for various intellectual property rights (patents, copyrights and trade marks). Of the sectors which are regulated by these agreements and which are of particular significance for the developing nations, it can be noted that the GATS agreement covers tourism and the transport sector and that TRIPs concerns food production rights and patents related to biotechnology.

- The rapid growth in trade in services, and in developments within the field of biotechnology will probably have major consequences for the economies and export opportunities of the developing nations. There are also important environmental aspects to these sectors. More information is required if we are to fully understand the capacity of aid to promote environment friendly production and exports within the services field, and the potential for the economic exploitation and export of genetic resources, such as how TRIPs and GATS affect export opportunities for developing nation exports, and what conditions are required to achieve sustainable growth. We recommend that these issues should be further investigated. Investigations which have already been performed by WTO, UNCTAD, the World Bank and others, together with information on what aspects of aid policy have been taken into account to date in Swedish positions concerning these agreements, should be an important starting point for such initiatives.

2.3.3 Basic regulations within the WTO

A central goal for the WTO is to abolish discrimination in world trade. In this respect, two central principles apply:

- *Most favoured nation (MFN)* means that WTO members must apply the same trading conditions for all WTO members. If a country reduces its tariffs for one nation, the same tariff reduction should also apply to all other WTO members.

There are several important exceptions to the MFN principle. Concessions can be made for:
1. Customs unions and free trade areas (e.g. EU, EEA, Nafta, Mercosur).
2. General System of Preferences, (GSP), which gives the developing nations preferential tariffs on industrial nation markets (see section 2.4.1)
3. Special arrangements for the developing nations classed by the UN as the least developed – “LDCs”

- *National treatment:* equal treatment (non discriminatory) of domestic or imported goods and services, which means that imported goods may not be discriminated against in favour of domestic goods with respect to internal taxes and duties, technical directions etc.

The rules which prohibit discrimination specify that “equivalent goods” must be treated the same. According to the current interpretation of the WTO agreements, two products that have the same properties are “equivalent” even if they have been manufactured in different ways. It is therefore not permitted to restrict the import of a product on the grounds of the environment and health risks that arise during manufacture, or because the manufacturing country has lower environment standards than the importing country. This is usually called the ppm issue (process and production methods).

2.3.4 Tariff and non tariff trading barriers

As described above, foreign trade is subjected to a range of trade policy measures, which, roughly speaking, can be divided into tariff and non tariff related trading barriers. In addition to quotas and other import regulations, non tariff trading barriers also cover product standards and anti dumping regulations. Domestic subsidies and other measures which do not directly act as import barriers, restrict market access for foreign exporters.

The industrialised nations have significantly[5] reduced their tariffs through the GATT agreements and have also cut their quantitative restrictions on trade. In line with the reduction in the importance of tariffs, other barriers to trade have come to light and assumed a significant role.

2.3.5 The agreement on technical trading barriers (TBT agreement)

The legislation of every country includes regulations on a product's design with regard to health, safety and the environment. In a trade context, such regulations (standards and technical directions) are known as technical trade barriers. There is an international desire to harmonise product standards so manufacturers have as few standards as possible to work to. The TBT agreement (Technical Barriers to Trade) regulates the creation and application of technical directions and standards plus the procedure for determining compliance with technical regulations (certification, accreditation). These regulations are developed by government and local authorities and private organisations. The agreement differentiates between "technical directions" which are compulsory, and "standards" which are voluntary.

According to the agreement, technical regulations must not create unnecessary obstacles to international trade. Nor shall they be more restrictive to trade other than that which is necessary to meet legitimate aims, taking into account the risks that would arise if the aims were not met. Legitimate aims include both health precautions and protection of the environment.

2.3.6 Sanitary and phytosanitary measures – SPS

The SPS agreement came about through negotiations in the Uruguay Round and contains regulations on health and safety directives which cover the trade of foodstuffs, animals and plants. The SPS agreement can be seen as a complement to the agreement on technical trade barriers which were not thought to include adequate protective directives in the field of animal and plant and vegetable protection. According to the SPS agreement, these measures must be based on scientific principles and may not be upheld without adequate scientific evidence. Neither may they be more restrictive for trade than that which is demanded to achieve a reasonable level of protection, in respect of what is technically and economically possible.

According to the agreement, such measures must be based on international standards, guidelines and recommendations where such exist. Higher national demands than those which are established by these organisations are permitted if they are based on scientific grounds and internationally recognised risk assessment methods. As such, the demands for scientific evidence are fundamental to the SPS agreement. According to the "prudence principle" which is written into the agreement however, it is possible for a limited period of time, to introduce measures based on the available information, if there is insufficient scientific data.

2.4 The EU's trade policy and developing nations

The EU's share of developing nation exports is relatively low, around 17 per cent. As outlined in chapter 2.2.3 there are both external and internal reasons for the developing nations' lack of export success. This section describes the EU trade policy, one of the external reasons why exports to the EU are not higher. It is difficult to evaluate the relative significance of the various reasons for the low export figures. In this context, the trade policy conditions are highlighted, as the developing nations have little opportunity to influence these themselves.

[5] Tariffs on industrial goods have been reduced through negotiations from an average of 40 % in 1947 to around 4 % today

The EU treats the developing nations selectively, that is to say certain groups of developing nations are treated more favourably than others. Despite the fact that special rules of preference have been introduced to make it easier for developing nations to penetrate the EU market, the EU's trading rules are not as favourable to the developing nations as they appear at first sight. For the more developed developing nations some of their most important export commodities – farming and textile and clothing products – are excluded from preferential treatment. In principle, LDC country exports are tariff free – with certain exceptions in the foodstuffs area. The rules for agricultural products as a whole form a complicated system of trade barriers, special rules, transition regulations and exceptions. The following section describes a number of these trade policy rules and conditions concerning imports into the EU from developing nations, but which are also partly applicable to trade between other industrialised countries and the developing nations. This is followed by a description of the preferential treatment the EU offers to different groups of developing nations, and lastly the trading rules for a number of the most important product areas for the developing nations.

2.4.1 Tariff scaling

The tariff free treatment accorded to the developing nations mainly applies to raw materials. In contrast, tariffs are levied on processed goods, and the rate of duty is raised in line with the level of refinement of a product (tariff scaling). So, for instance, oil seeds exported to the EU are tariff free, while oil produced from oil seeds is subject to duty of 12.4 per cent. Which means the developing nations are penalised when they process their raw materials. The rules on tariff scaling have a negative impact on the capacity of developing nations to refine their products and develop their industries in order to eliminate their dependence on the export of raw materials. Tariff scaling means therefore that the EU refining industry is protected in relation to the labour input into the product. Protecting this refining industry, makes it profitable for EU countries to export products in a refined state.

Awareness of this situation led to requests from the developing nations in the 1960s for preferential tariff treatment of industrial products in particular. As a result of these demands most industrialised nations established the current system of preferences at the beginning of the 1970s. Due to the dramatic reduction in tariffs following the GATT/WHO negotiations, the economic significance of tariff scaling has also lessened. However, the latest tariff cuts, brought about by the Uruguay Round agreements, have led to an increase in relative tariff scaling for certain products, albeit at a lower level than previously.

2.4.2 The General System of Preferences (GSP)

GSP(General System of Preferences) is an agreement which means that developing nations are afforded preferential tariffs (tariff reductions) by the industrialised nations. GSP has been developed via extensive negotiations between North and South within the framework for UNCTAD (United Nations Conference on Trade and Development). The aim was to promote industrial growth in the developing nations through the provision of more generous trading conditions. The most developed developing nations have had the greatest benefit from the GSP. Generally speaking, GSP has not had the major impact that could have been expected. This is due to the fact that the most important product groups for the developing nations, such as textile and clothing products, are considered "sensitive" and therefore given less generous tariff rates than other product groups. Another reason is that the systems are extremely complicated.

In certain cases, the importing countries offer additional tariff breaks in exchange for desired behaviour by the exporting countries. For instance, certain countries in South and Central America are given especially favourable treatment to encourage them to fight the narcotics industry. One proposal currently under discussion within the EU is for the developing nations to be offered additional tariff reductions if they adhere to a) international labour rights and b) International Tropical Timber Organisation recommendations on sustainable forest production, when exporting sustainable forest products.

2.4.3 Country of origin rules

All preferential treatment presupposes that the export goods are processed in the country of origin to the prescribed degree. If the importer nation is to be able to determine if a product should be given preferential treatment, the extent of which imported components have been used in its production must be known. This means that the product must satisfy the prescribed rules of origin to be granted tariff reductions in accordance with the system of preference. The proportion of components that may be imported is specified for each product group. The rules for this are extremely complicated. The rules for accumulation mean that processing that has been done in different countries which are members of a free trade area or by agreement may be combined in order to be able to be granted a certain degree of preference or tariff free status.

The rules of origin can appear restrictive for exports from and opportunities for industrial development in the developing nations, as the system militates against simple assembly industries, which are dependent on imported components.

2.5 The EU's trading preferences

As previously mentioned, the EU operates a selective trading policy towards the developing nations, i.e. different groups of developing nations are afforded different preferential treatment. In principal, there are three levels of preferential treatment.

GSP Latin American and Asian countries

Some 40 or so countries in Asia and Latin American are affected by the general system of preference, which offers a tariff reduction which is related to how "sensitive" the product is. Developing nations which apply international rules on labour rights and the environment are eligible for additional preferences according to the EU GSP directive. How this can be translated into practice is currently under discussion within the EU.

The Mediterranean countries – Maghreb and Mashreq countries

A group of Mediterranean countries have a more favourable agreement with the EU than GSP. These are the Maghreb countries (Algeria, Morocco and Tunisia) and the Mashreq countries (Egypt, Jordan, Lebanon, Israel, the Palestinian Authority controlled areas, and Syria). These countries have, or are negotiating, mutual trading agreements with the EU, signed country by country. They may sell their industrial products to the EU tariff and quota free, with the exception of refined oil products, certain textiles, and agricultural products (in general, those that compete with EU agriculture[6]).

ACP countries

The ACP (African, Caribbean, Pacific) group of countries have the most advantageous trading rules with the EU, according to the so called Lomé Agreement. The group mainly comprises former colonies of EU countries and numbers 71 states today, since South Africa joined up to several parts of the Lomé Agreement in April 1997. The majority of LDC nations belong to this group. The other LDC nations now receive the same preferential treatment as the Lomé nations, except for certain agricultural products.

The Lomé Agreement provides tariff free access to the EU market for industrial, textile and clothing goods. Broadly speaking, all agricultural products are tariff free, except in certain cases where a prescribed volume is permitted at a reduced tariff, or tariff free, so called quotas. Total accumulation is applied between the EU and ACP countries, which means that production stages that are

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[6] When Spain, Portugal and Greece joined the EU, the agreements on wine, olive oil, oranges etc. were made stricter. Within the textiles area, Morocco, Tunisia and Egypt have been forced to accept "voluntary" export ceilings on textiles and clothing.

performed in one of the agreement party countries can be put together and count as sufficient processing to enable final production to be given preferential treatment.

2.5.1 Textile and clothing goods, agricultural and fish products

The EU trade policies for three sectors which are central to developing nation exports are discussed below:

2.5.1.1 Textile and clothing goods

The textile and clothing industry is very significant for many developing nations. The clothing industry, in contrast to the textile industry, does not require major investment and is often the first important industry established in a developing nation. Tariff free trade and free quotas applies to textiles from the ACP countries and LDC countries outside the ACP area today, plus Columbia, Venezuela, Ecuador, Peru and Bolivia. The GSP rules apply to other developing nations, which means tariffs are reduced by 15 per cent for textile and clothing products. Outside the GSP, the EU tariff on textile and clothing products is 12 per cent on average. With the GSP preferences, the tariff rate is 10.2 per cent.

GSP certification of origin labelling demands apply for all types of preferential treatment. For clothing this means that all weaving and sewing must have been done in the exporting country. For knitted materials, the spinning, knitting and sewing must have been done in the exporting country. The rules of origin are a source of major problems for developing nations which import cloth for their clothing industry in particular, as these cannot receive preferential treatment.

Textiles and clothing goods are the only products subjected to quantitative trading restrictions within the EU. Within this area, protectionist interests have been allowed to take precedence over the principle of free trade. However in the Uruguay Round it was decided that the EU, as with the other industrialised nations, should successively abolish the import quotas by the year 2005[7]. The abolition of quotas will start with the least important products. The import quota system has both winners and losers. The winners are a number of LDC countries who can gain orders due to the fact that more successful developing nations have already filled their allocated quota. When the quotas cease, the importers will be able to place orders of any size they want with the countries perceived as the most advantageous and the need to turn to LDC countries to make up their total requirements will disappear. *It is therefore important that the LDC countries are given the opportunity to increase their market access as soon as possible in order to be able to face up to the new conditions after the year 2005.*

Many developing nations have exhibited extreme concern that the industrialised nations will try to retain a restrictive stance against textiles and clothing imports via vehicles such as stringent environment demands and anti dumping tariffs. The abolition of quotas only applies to countries that are members of the WTO. As China is one of the world's largest exporters of clothing, powerful forces are seeking to keep the country outside the WTO.

2.5.1.2 Agricultural products

Agricultural production is one of the most protected sectors in the world economy. The EU's Common Agricultural Policy (CAP) – favours its farmers and protects the more sparsely populated regions within the EU. Different types of farming subsidies make up the largest single item in the EU budget. This is not simply due to the fact that the level of subsidies is high, but also because the common agricultural policy is totally harmonised with common financing, in contrast to most other sectors, where the financing is either shared or wholly national.

The Uruguay Round means that the previous wide variety of different trading barriers is replaced by tariffs, which has made trading conditions more transparent. EU tariffs on agricultural products

[7] Sweden abolished unilateral restrictions on textile and clothing products in 1991, but was forced to reintroduce them on entry to the EU

can be very high and amount to several hundred per cent. However the levels vary considerably depending on the size of the EU harvests and the development of world market prices, for instance, at certain times there are export duties rather than import tariffs on grain.

Agricultural products are exempted from the WTO ban on export subsidies. This has a negative effect on farming production in the developing nations as imported agricultural products from e.g. the EU can be sold at below the cost of production, which distorts the market prices.

The EU trade policy in the agricultural sector causes great difficulties for developing nation exporters. Many developing nations have the potential to increase exports of agricultural products including a proportion of organic crops. The high tariffs make market access more difficult for the developing nations however, as the producers are forced to keep their prices unreasonably low to compensate for the tariff and transport costs. Exports to other regions are also made more difficult due to the need to compete with subsidised world market prices. Even on their own domestic markets, the developing nations are forced to compete with products that are subsidised by export or other grants.

The industrialised nations have undertaken to reduce their tariffs by an average of 36 per cent up to the year 2001. The effects of this decision will however be limited or negligible as these tariff cuts are based on the situation in 1986–88 when border protection was higher than today due to extremely low world market prices.

The export of organically grown agricultural products ought to be an opportunity for the developing nations to gain greater market access. In the developing nations, crops are often grown without pesticides or additives for reasons of tradition and a shortage of capital and technology, and also because traditional systems of cultivation sometimes prove highly effective. They often also maintain a great value of local knowledge and biodiversity. However organic farming products are confronted by significant obstacles according to EU directive 2092/91 in order to be approved and sold as organic (see also section 6.4.5.1).

2.5.1.3 Fishing

Fishing is an important economic factor in many poor coastal countries. Fish is often the main source of protein for the coastal population. The local coastal fishing is done from small boats and the catches are not too large to disturb the balance of the fish stock.

The Lomé Convention includes an inbuilt obstacle to the tariff free export of fish. For tariff freedom to apply to fish or fish products from ACP countries, the fish must be caught from boats which are at least 50 per cent owned by these countries or EU countries. This clause was introduced to prevent boats from other countries gaining additional preferences, to which they are not entitled, by landing their catch in an ACP country. Many ACP countries do not have access to especially large boats. If they hire boats from a third country, they no longer have the right to preferential treatment. This clause in the preferential treatment of fishing products is a contributory factor in the transfer of fishing rights to fishing fleets of other (often EU) countries.

The EU provides aid to many countries to support the development of the local fishing industry both for domestic consumption and export. At the same time as agreeing aid to the local fishing industry, the EU signs a trading agreement with these countries which gives the European countries access to the fishing waters of the developing nations. Agreements are negotiated with the governments of these countries such that they receive financial compensation for giving up their fishing rights. The fishing fleets of the EU countries pursue a policy of intensive fishing which contributes to overfishing of the oceans. The survival of many types of fish stock is threatened and with it the livelihood of the local population.

This situation is a clear example of the lack of harmony between the EU's trade and aid policy.

2.6 Summary

The increase in international trade is creating opportunities for developing nations to increase their exports and economic growth. There is a risk, however, that the very poorest developing nations in particular, will not be able to exploit the advantages of a global economy, and so the economic gap between them and other developing nations and the industrialised world will continue to grow.

The LDC countries (least developed countries), and especially the African nations, have a remarkably small and shrinking share of world trade. The LDC countries' share of total developing nation exports is very small, just 1.6 per cent.

International trade is regulated by a series of agreements which are negotiated and supervised by the World Trade Organisation (WTO). Prohibiting discrimination between goods from different countries is a fundamental principle in the WTO regulatory framework. Within the WTO, there are specific agreements which regulate technical standards and directives (TBT agreement) plus health directives covering the trade of foodstuffs, animals, plants and vegetables (SPS agreement).

The developing nations face major obstacles to their export goods if these do not comprise raw materials and even then agricultural products are not included. The role of the developing nations as producers of raw materials is promoted by the EU trade policy. Within the General System of Preferences (GSP) for example, which offers lower tariffs to developing nations, there are built in obstacles – manufacturing industry exports are hampered by rules of origin, the textile industry is faced by import quotas and agricultural products are largely excepted. The trading advantages within GSP are least generous for the products which are most important for the export sectors of developing nations.

EU directive 2091/92 has a negative impact on the opportunity for developing nations to export organic products. The various trade obstacles which the developing nations face when seeking to export to the EU are very worrying in the long term both in terms of reduced economic growth and for environmental reasons. The developing nations' dependence on the export of raw materials leads to major strains on their environment as many developing nations increase the extraction of raw materials to maintain their export earnings in the face of falling raw materials prices. Which is ultimately not sustainable.

The EU's trade and aid policies are often at odds with each other when it comes to the developing nations. Aid policy aims of stimulating sustainable development in the developing nations can be difficult to realise in many areas due to the EU's Common Agricultural Policy and restrictive trade policy.

3. Environmental problems associated with production in the developing nations

Environmental issues seldom occupy a prominent place in the developing nations. Environmental demands can be experienced as an obstacle to economic growth and with it increased welfare. The transition to environment friendly production is often complicated and can initially require financial resources. Governments in the developing nations often prioritise increased production in order to reduce poverty.

The competitive advantage of many developing nations often lies in low costs due to little investment in the working environment and weak adherence to environment laws. Many components and additives which are banned in the industrialised world are still used in the developing nations. Within the field of export crop production, the chemical intensive monoculture destroys the soil and the biodiversity. Export crops are also often grown on the best land, a side effect of which is that less suitable land is used for non sustainable agriculture. Pesticides and sewage pass into waterways and can pollute the subsoil water. Production in the developing nations frequently exposes the local population and nature to greater risks than the equivalent production in the industrialised nations. The infrastructure investments designed to facilitate production and export opportunities also cause environment problems. For instance, the biodiversity is often affected by changes in land use (dams, mines, etc.).

Developing nation industries are often wasteful of water resources, which leads to city based industries competing with households for access to water. Major water consumers, such as paper mills, textile industries and tanneries, often result in the neighbouring population having difficulty gaining access to clean water.

Many developing nation industries are a long way off achieving closed systems which cleanse emissions of polluted air and water and recycle chemicals and waste. A lack of access to capital to finance environmental improvements is one source of the problems, as is a shortage of technology and know how. In many developing nations there is no authority with the power to enforce compliance with environment laws and which is able to evaluate the environmental consequences of industrial and infrastructure projects. The lack of local strong public opinion on environment issues also means that environment problems within industry and agriculture in the developing nations are given low priority.

In many developing nations, producers receive subsidies for the likes of fertilisers, chemical pesticides, energy and water. These subsidies are a contributory factor in the retention of old technology and products, and make the transition to more efficient and cleaner production methods more difficult.

The following are examples of environment problems caused by a number of the developing nations' most common export products:

Coffee

The largest coffee producers are Brazil, Colombia, Costa Rica and Guatemala who together cultivate around three quarters of all the coffee imported into Sweden. Most, around 80 per cent, is grown by small holders, the rest on large plantations. In order to make the crops more profitable, the growers use an ever increasing amount of pesticides to produce larger harvests in the short term. The farm workers have very little knowledge on how poisons should be handled and they frequently work without any kind of protection.

King prawns

The farming of king prawns in Asia has increased four fold in the last ten years since the introduction of intensive prawn farming. The prawn farms are built in wetland areas, mangrove swamps are particularly suitable for prawns. Today around half the world's mangrove forests have been cleared and prawn farming is one of the main reasons for this. Mangroves form a unique eco system which acts as a nursery for many kinds of fish and at the same time, protects the beaches from erosion. Prawn farmers use antibiotics and other chemicals which pollute the water and land so badly that prawn farms have a life span of just 7–10 years, after which time production is moved, leaving the mangrove swamp devastated.

Bananas

Swedes are the world's biggest banana eaters, 17 kg per person per year. The biggest banana exporting countries are Ecuador, Panama, and Costa Rica. Large areas of rain forest have been cleared to grow bananas. The modern plantations are extremely pesticide intensive. According to World Conservation Union (IUCN) estimates, approximately one and a half tons of waste is generated for every ton of bananas grown. This waste includes chemical barrels and plastic sacks. The sacks are draped over the banana stems to protect them against insect attack. Residual poisons and plastic sacks can sometimes be swept out to sea during the rainy season, and they are suspected of being a contributory factor in the damage to the coral reefs discovered in recent years.

Cut flowers

25 per cent of all cut flower exports now come from countries in the southern hemisphere. The biggest exporters are Kenya and Colombia. Cut flowers are amongst the most pesticide intensive of all large scale plant and vegetation cultivation. Farmers in the developing nations often use pesticides which are banned in the industrialised world. Workers often work totally unprotected in very close proximity to the plants. Flower growing is also extremely water intensive. In flower growing areas, significant falls in the ground water level have been reported.

Textiles and clothing products

Sweden's requirements for textiles are almost 100 per cent met by imported goods, of which a large proportion comes from the developing nations. Textiles are one of the most important sources of export revenue for many developing nations.

Textile manufacturing is extremely chemical intensive at every stage of production. Half of our clothing is manufactured in cotton which is grown in some 80 countries, the majority of which are within the developing nation group. Cotton fields make up around 5 per cent of the world's cultivated soil but consume 11 per cent of the sum total of agricultural chemicals. Cotton undergoes several processing stages to be made into cloth, yarn or clothing: spinning, bleaching, dyeing etc. All these stages are very water intensive and different chemicals are used at the various stages and due to poor or non existent cleaning in the factories, pollute the ground and watercourses. The working environment and health and safety measures are in many cases unsatisfactory.

Hides and leather

The leather industry is recognised as being a heavily polluting manufacturing sector. It is very water intensive and emissions from tanneries and dyeing industries contain large quantities of organic and inorganic waste. The workers are exposed to high levels of e.g. chromium. The organic waste causes hygiene problems and also gives rise to unpleasant smells in areas surrounding tanneries.

Leather is a fast growing industry in the developing nations which suggests further damage to the environment unless action is taken.

3.1 Summary

Many of the most common export products from the developing nations cause major damage to the environment during manufacture and cultivation.

Large scale cultivation for export devastates the soil and biodiversity. Pesticides are a health hazard both for the people who are in direct contact with them and also due to the fact that they leach into lakes and waterways and can also contaminate the ground water.

Industries often employ ageing technology that is dangerous for the environment, and ingredients and additives that are banned in the industrialised world. Industries are frequently wasteful of water resources and pollute the water, which is a contributory factor in reducing household access to clean water.

Weak authorities without the power to enforce legislation often results in poor observance of environment regulations.

Low incomes and a lack of environmental awareness amongst the general population in the developing nations means environment problems are given a low priority.

4 International agreements on development and the environment

4.1 Agenda 21

The UN Conference on Environment and Development (UNCED), was held in Rio de Janeiro in June 1992. The conference was the largest in the UN's history attended by 181 states and the EU, plus 120 heads of state and government. At the conference, three documents were passed:

- *The Rio Declaration* which lays down the fundamental principles for human and sovereign rights and responsibilities in order to secure our common future
- *The forestry principles* which provide guidelines on how the world's forests should be exploited without damaging the environment
- *Agenda 21* which is an action programme ahead of the 21st Century in order to get to grips with the biggest environment and development problems

Two conventions were finalised for signature in Rio:

- *A convention on climate* to combat climate changes.
- *A convention on biodiversity* to preserve the diversity in animal and plant life.

Agenda 21 is an action programme to continue combating the biggest environment and development problems in this century and the next. Agenda 21 determined that "in order to reactivate and hasten development, a dynamic and supportive international economic environment is vital, together with a firmly established policy at national level". Further, it stated that "the development process will not accelerate if the world economy lacks vitality and stability or if it is characterised by uncertainty. And nor will this acceleration take place if the developing nations are burdened by foreign debt, if the financing of development is inadequate, if trading barriers restrict access to the markets or if the developing nations' raw materials prices and trading conditions continue to be kept at an unsatisfactory level".

Agenda 21 links sustainable development with trade and the environment. In chapter 2 it states that the international community "should ensure that environment and trading policies reinforce each other, such that sustainable development can be achieved". Other goals for Agenda 21 within the area of trade and the environment are to promote an open and fair multilateral trading system which makes it possible for all countries – and especially the developing nations – to improve their economic structures. Concerted efforts should also be made to improve the developing nations' access to export markets in particular. These goals are to be reached by such measures as "slowing down and reducing protectionism in order to achieve greater liberalisation and expansion of world trade for the benefit of all countries, especially the developing nations."

The implementation of Agenda 21 assumes that the developed nations will support the developing nations in every way possible, including financially, in the transition to sustainable development.

4.1.1 UNGASS

Five years after UNCED in Rio, the UN held a special session on "Rio +5", UNGASS (United Nation General Assembly, Special Session), to summarise the results of the Rio Conference up to the present date, and especially of all the resolutions that were passed in Agenda 21. The issues which were difficult to resolve in 1992 proved to remain full of problems. *For instance, there were few initiatives on the part of the industrialised nations concerning the issues of providing the necessary financial resources and the transfer of environment friendly technology to the developing nations.*

In contrast to UNCED, UNGASS could not agree on a political declaration where the nations of the Earth could together advance stances to improve the environment.

4.2 International environment agreements and trade measures

International co-operation on the environment is developed and formalised via a series of international conventions. There are currently around 180 different environment agreements, of which 18 contain, as one of several means, opportunities to resort to trading measures[8]. In recent years the question of the extent to which these trading measures are compatible with the WTO rules has been the subject of lively debate.

With regard to important general policy aims, WTO members are correct to take steps to protect certain of their own environmental resources at the same time as the WTO protects the rights of members against arbitrary or unfair discrimination and covert restrictions through trade. The multilateral agreements are seen internationally as a good way to deal with and co-ordinate efforts on global environment problems.

GATT's Article XX gives the member nations the opportunity to take steps "necessary to protect the lives and health of people, animals and vegetation" (paragraph b) and in order to "preserve finite natural assets, if such measures are implemented in connection with restrictions on domestic production and consumption" (paragraph g). This on condition that such measures are not applied in a way that would entail arbitrary or unjustified discrimination between countries where the same conditions prevail or a covert restriction on international trade. The wording is not absolutely crystal clear here and there is scope for different interpretations. To date only a handful of cases within the GATT and subsequently the WTO arbitration systems have embraced Article XX.

The question of the relationship between trading measures in international environment agreements and the WTO's regulatory framework is an important issue on the agenda for the WTO committee for trade and the environment. On this issue, the EU takes the line that trading measures which are adopted within the framework for multilateral environment agreements should be named separately amongst the exceptions in Article XX. The EU claims that such measures can be necessary to achieve the aim of an environment agreement, the fact that it has been successfully negotiated multilaterally is the best guarantee against the risk of protectionist abuse. The EU has further proposed to add the word "environment" to GATT's Article XX as an area which is especially given protection. The EU also supports the development of suitable and effective arbitration mechanisms for prevailing trading agreements and multilateral environment agreements etc.

4.3 Environment related rules and market demands

Although environment regulations and environment related market demands apply equally to domestic and foreign manufacturers, many developing nation advocates perceive such environment demands as trading barriers. They see them as "green protectionism", a new way of excluding the developing nations from industrial nation markets, as during the colonial age. Above all, the developing nations are highly critical of all attempts to influence manufacturing methods and the environmental impact of production, which, in their view, infringes upon their sovereignty and is an unwarranted means of interfering in the domestic affairs of these countries.

In this context it is important to differentiate between different types of environment demands, on one side the mandatory regulations that are determined by authorities, and on the other hand de-

[8] Examples of agreements include: The Montreal Protocol (regulates ozone depleting substances, CITES (regulates trade in animals and plant life threatened with extinction), the Basle Convention (regulates trade in environmentally hazardous waste)

mands which the market players, ultimately the consumers, make on the companies. Mandatory regulations may, as previously mentioned, only cover the environmental impact which the finished products give rise to. For natural reasons, there are no corresponding restrictions for consumer demands and which the exporters themselves choose whether they wish to meet. It can be easier for individual exporters and developing nation governments at accept such market demands, as they can be considered a further development of the quality standards customers always demand, rather than as a barrier to trade.

4.4 Summary

Agenda 21 establishes the importance of mutually supportive environment and trading policies. One of the aims of Agenda 21 within the area of trade and the environment is to promote an open and just multilateral trading system which enables all countries and the developing nations in particular to improve their economies. *The implementation of Agenda 21 assumes the industrialised nations will provide financial and other support to the developing nations.*

The relationship between international environment conventions and the WTO is an important issue on the WTO committee for trade and environment agenda. The EU maintains that the WTO rules should include explicit exceptions for trade measures within the framework for multilateral environment agreements.

According to the WTO rules, it is not permitted to obstruct the import of a product on the grounds that it is manufactured in an environmentally harmful way, import obstacles may only be implemented if the product contains environmentally harmful elements.

Exporters face mandatory environment demands in the marketplace and demands from consumers (market demands). These market demands are gaining an increasingly important role as a growing number of companies seek to build a good environment profile.

5 Trade and the environment

In the 1990s, issues concerning trade and the environment in relation to sustainable development have come into focus more and more. When the Uruguay Round was negotiated, the question of whether environment issues should be included was raised. This did not gain acceptance, and the decision was taken instead to set up a specific environment committee under the auspices of the WTO – the Committee on Trade and Environment (CTE)[9]. A key question for the committee's consideration is how concern for the environment and international environment conventions can be reconciled with a non discriminatory trading policy, and make trade and environment policies mutually supportive.

Policies to stimulate more liberal foreign trade seek to make the global economic system more efficient and so raise real incomes and with it standards of living. Higher income is achieved through higher production of goods and services and with it comes higher employment. The basic reasoning is that higher real incomes lead to greater welfare. And greater welfare will lead to more resources being available for environment measures and often greater interest in environment issues. Moreover, increased trade is thought to lead to a more effective use of resources. But there are opposing arguments which claim that increased production and transportation encouraged by more liberal trade leads to greater damage to the environment and conflicts with the principles of sustainable development. As trade is a contributory factor in economic growth, trade increases all the negative – and positive – environment effects associated with growth.

Another argument concerning the environment and free trade is that free trade is all well and good but that it must be based on all the costs involved in producing the goods, which includes the costs to the environment. Otherwise the prices could be said to be distorted, and one cannot be certain that the socio economic gains which trade is assumed to deliver, genuinely follow. It has been claimed that "free trade" in such case is flawed and regulation is imperative to prevent "environmental dumping".

In other words, free trade can be both good and bad for the environment, and which of these it is, largely depends on what playing rules apply. An ever increasing number of countries are realising the importance of protecting the environment and are therefore introducing stricter environment legislation. Free trade based on sound environment regulation can be environmentally sustainable, while free trade based on a lack of concern for the environment in the regulatory framework can be a contributory factor to unrestrained environment damage.

As a means of eliminating conflicts between environment policy and trade policy decisions, measures should be shaped such that each area takes into account the consequences for the other. In other words, it is vital to co-ordinate national policies. The starting point for which is that environment and trade policies are both instruments for sustainable development.

It is worth noting that the developing nations are highly sceptical about discussions regarding greater concern for the environment in the WTO regulatory framework. This is based on a fundamental fear that this would provide scope for "green protectionism"

5.1 Opportunities to influence production

It is important to differentiate between green protectionism and environment protection. Green protectionism means citing environment reasons to legitimise a measure which is mainly designed to protect the economic or political interests of a domestic industry. Environment protection means measures to protect the environment. What differentiates these phenomena is the aim of the measures.

[9] See also section 4.3.2

As it is not considered compatible with WTO rules to cite an environmentally harmful manufacturing process to obstruct imports, voluntary eco and fair trade labelling has become an important means of seeking to promote more environment friendly production methods. These labels offer consumers the opportunity to influence production by voting with their wallets; by buying goods which are manufactured in an environment friendly and ethically acceptable way. Eco labelling systems have sprung up nationally, often as a reaction to slow legislation, and as a means of stimulating companies to go further than required by law. The difficulties in developing international standards means that labels play a relatively larger role when it comes to imported goods.

There are countries and groups within the WTO, mainly developing nations, which claim that even voluntary (often not government) eco labels constitute an unlawful restriction against market access and should be covered by the TBT agreement (see 2.3.5).

5.2 Positive incentives, Green GSP

Green GSP (General System of Preferences) means that goods produced in an environment friendly way are given preferential treatment in the GSP. Originally, the intention was that from 1998 the developing nations should be able to apply for such preferential treatment for timber products (see chapter 2.4.2). However, the development of the green GSP has been delayed and at present it is not clear how such a system can be shaped and applied.

It is important to employ positive incentives to stimulate environment friendly production in the developing nations for several reasons:

- By lowering tariffs and relaxing quota systems, this will demonstrate the industrialised nations' active interest in supporting the transition to environment friendly production in the developing nations. If progress is to be made in multilateral negotiations, it is important that the industrialised nations provide opportunities for the developing nations, rather than making demands on them.
- in order to strengthen the forces that are today working for a more forward looking environment performance in developing nations.

The introduction of "green GSP" for agricultural products ought to be an opportunity for the developing nations to increase their market access within this sector, as the EU is ring fenced by trade barriers. A rise in the export of products that are organically grown should benefit small holders in particular, as this kind of agriculture is often done on a small scale. Small scale cultivation also benefits biodiversity.

Before a green GSP can be introduced however, a range of fundamental issues must be investigated and modifications made, so the system is structured such that it genuinely delivers the environment effects intended. A fundamental problem is that the GSP system is already extremely complicated. To achieve the desired effect, the system must be simple to administer, and be based on generally accepted criteria. Another problem is that GSP preferences are granted to each country as a whole, whereas from an environment viewpoint it is better to link the preferences to individual exporters, as this would send the clearest signals to the producers. Ultimately it is vital that the preferences are so substantial that they genuinely produce results.

5.3 How Swedish and international organisations view trade and the environment

5.3.1 Swedish organisations

5.3.1.1 Swedish policies on trade and environment

Sweden belongs to the group of countries which have had the most far reaching ambitions in the area of trade and environment within the WTO. As previously mentioned, one important issue is the connection between trading policy measures in various environment conventions and the WTO regulatory framework. Other important issues are the trading policy effects of eco labelling, and the question of market access for environment friendly products, etc.

The goal for Swedish policy is to pursue trade and environment policies which are mutually supportive and so eliminate as far as possible the risk of conflicts between trade and environment policy decisions. Sweden's initiatives on trade and the environment should also promote sustainable development in the developing nations.

In relation to environment policies, these trading policy goals entail that international trade and the free movement of goods and services within the EU's internal market may not be restricted by environment policies, more than is absolutely necessary, in accordance with trading agreements entered into and the regulations for the free movement of goods and services. Environment policy measures must comply with important trading policy principles on non discrimination and national procedures and other relevant trading policy rules.

The enforcement of the multilateral environment agreement must be guaranteed. The Swedish National Committee for Agenda 21 observed that as international trade creates the conditions for development globally, international trading rules must aid sustainable development. As a step forward in this development, trade and aid policies should be more integrated in order to make a greater contribution to sustainable global development.

The Swedish Foreign Office – International Trade (UD-IH): Has primary responsibility for trading policies, participates in the work with WTO-CTE, OECD Joint Session. The UD-IH participates in the structuring of the EU trading policy.

The Environment Ministry co-operates with UD-IH and has primary responsibility for negotiations on multilateral environment agreements.

5.3.1.2 Government authorities

The Swedish Board of Commerce is the central administrative authority for foreign trade and trade policy. The Board is required to perform an independent analysis of relevant regulations and Swedish interests and put forward proposals for solving problems and/or Swedish policy in international trading policy forums. Where external trade policy within the area of trade and environment is concerned, issues are analysed and dealt with in multilateral trade contexts, principally in the WTO, but also OECD, UNCTAD, CSD, UNGASS, UNDP and certain international environment conventions.

The Nature Conservancy Board is the central administrative authority for environmental control and seeks to protect the environment and biodiversity. A principal responsibility of the authority is to build up knowledge about environment issues and ensure this comes to good use by furnishing the Swedish parliament and government with data to help them in environment policy decision making. In relation to regional and local authorities, trade and industry and the general public, the Nature Conservancy Board promotes measures and patterns of action which lead to environment friendly procedures. Trade and industry is just one of the sectors specifically prioritised by the Board.

SWEDAC is Sweden's central administrative authority for accreditation and technical control. Ultimately, the authority aims to provide both trade and industry and public bodies with support which corresponds with industrial agreements. SWEDAC's service is based on EU and WTO agreements. The authority acts both as a fee based consultancy service and as a traditional authority. Two of SWEDAC's overlapping roles are:

- with reference to international commitments and in the interests of both the consumers and trade and industry, to act to ensure that the monitoring and inspection of products is performed according to uniform, effective and internationally acceptable principles.
- in international contexts, such as the WTO and EU, to protect Sweden's interests and seek to eliminate technical trading barriers through uniform rules for technical inspections.

Within the voluntary sector, SWEDAC's task is:

- to be the national accreditation body for accrediting laboratories, certification and inspection bodies.
- to be responsible for the accreditation of environment inspectors in accordance with the EU environment management system, EMAS.

5.3.1.3 Private organisations

The Association of Wholesalers Swedish Trade represents importers, wholesalers and suppliers. Its members are responsible for the majority of Swedish imports. Environment duties within the organisation consist of:

- to be represented in companies who reclaim and recycle packaging materials
- Initiate, arrange and participate in seminars to illuminate environment issues from a trading point of view. For instance, Swedish Trade has been involved in an Agenda 21 seminar and organised internal environment seminars.
- Rouse public opinion in favour of environment issues.
- Respond to referrals and participate in various reference groups
- Publish material explaining how new environment legislation will affect its members and how environment issues can be dealt with at company level.

The Association of Wholesalers Swedish Trade emphasises the importance of raising the profile of the EU trading policy as an important factor which hampers the developing nations in exporting goods to the EU. One way of easing developing nation exports ought therefore to be to abolish or soften the effects of the EU's highly restrictive trading policy. It is further stressed that consumer environmental awareness is highly likely to be influenced by developments and evaluations in the future. To an ever increasing extent consumers will probably demand products which respect both the environment and social conditions.

The Textile Importers is a trade organisation which has around 145 members. They account for the majority of textile imports (mainly clothing) onto the Swedish market. The Textile Importers' most important task is to work/lobby for the free import of textiles and clothing goods and to keep their members fully informed on developments in the EU textiles and clothing policy. To help encourage the transition to more environment friendly production, the Textile Importers have produced a brochure "Directions on purchase conditions for levels of chemicals in textiles". The organisation recommends including these conditions in their own purchase terms to its member companies. The Textile Importers have also produced recommendations on purchase conditions related to child labour.

The Association of Industry represents most of Sweden's industrial companies and also consultancy and service companies associated with industry. The Association of Industry members combined account for over 90 per cent of Sweden's industrial exports. It is naturally important that these exports are environment friendly.

With regard to environment matters, the Association actively seeks to influence Swedish environment policy such that it does not adversely affect the competitiveness of Swedish industry. The Association also supports its member companies in creating more effective environmental procedures. Environment initiatives have been concentrated on the following issues in recent years:

- system for environment management
- Agenda 21
- environment friendly product development
- environment indicators
- producer responsibilities
- EU/WTO related environment issues

Trade and environment is an extremely complex area in which international standards and harmonised environment regulations are two important factors affecting the ability of Swedish industry to have a global impact on environment issues and operate in an environmentally effective way, even in subsidiary companies outside Sweden.

5.3.1.4 Private organisations

SIS – Standardisation in Sweden, is an independent non-profit making association whose executive board represents both trade and industry and society. SIS regulations have been adopted by the government. SIS' most important roles are to be a member of and Sweden's representative in the international standardisation bodies ISO and CEN. SIS also authorises Swedish standardisation bodies responsible for standardisation within their own specialist areas and to lay down and publish Swedish standards.

The SIS subsidiary, SIS Certifiering, is responsible for the certification of products (SIS labelling), quality system (ISO 9000), and environment management systems (ISO 14000 and EMAS).

Forum South is an umbrella organisation with over one hundred Swedish popular movements as members. Forum South is engaged in aid and the development of skills and know how, information and public opinion building, etc. In spring 1997 in Sweden Forum South initiated and managed a series of seminars on international trade for Swedish NGOs which led to the formation of an informal occasional working group on trade.

Liaison Committee Sweden (CC-S) is a Swedish organisation with a membership of some 35 organisations. LC-S is the Swedish section of the European network of voluntary organisations which deal with development and aid issues, NGDO-EU Liaison Committee. LC-S acts as a link between the debate in Brussels and private organisations in Sweden. They also develop common positions for private organisations in Sweden towards the Foreign Office and Sida for example. The organisation was formed with the future EU-AVS co-operation in mind. LC-S believes it is important to create the right conditions for the export of goods produced in an environment friendly way. And that support for such production should also be developed, along with systems for environment and fair trade labelling, sales organisations plus a forum for discussions on trade issues.

The Nature Conservancy Board is the largest nature and environment organisation in Sweden. The Nature Conservancy Board goals are to ensure society works in harmony with nature. The Board is involved in the major environment issues, performs its own investigations, suggests ideas for a more environment friendly life style, shapes public opinion and lobbies decision makers. The Nature Conservancy Board works with some fifty organisations in the developing world. The Board administers the Swedish eco label "Bra Miljöval" (excellent environment choice) and the "Shop environment friendly" project.

The World Wildlife Fund in Sweden and other countries has for a long time highlighted the negative effects on the environment of the program of economic cut backs plus what the effects of the abolition of import grants and the liberalisation of trade will mean for the Southern hemisphere. A number of country specific analyses which the World Wildlife Fund has commissioned reveal for instance that the largest export industries are often major polluters, such as e.g. the bauxite and aluminium industries in Jamaica and the copper industry in Zambia. The Fund argues that the North should take more responsibility for global environment costs.

Friends of the Earth – Sweden has made a study on fair environment space, on how production can be switched over and patterns of consumption changed in order to achieve a sustainable society. The study expresses concern over what will happen to e.g. agriculture when the South is forced to open its gates to competition. The study claims that this will favour the industrialised agriculture in the North at the expense of small holders in the South, something which, in the long term, will be damaging to the environment.

5.3.2 International organisations

When the **WTO** was formed in 1995, it was decided to set up a special committee, the CTE (Committee on Trade and Environment). CTE's mandate is not only to discuss, analyse and report back on issues concerning trade and environment, but also to put forward recommendations for action. An early report was negotiated to a conclusion at the meeting of ministers in Singapore in December 1996. CTE is accordingly charged with investigating methods for how conflicts between the different areas of trade liberalisation, economic development and protecting the environment can be brought closer together and resolved. CTE is open to all member nations and observers are given the opportunity of following the committee's deliberations[10]. During its first two years, the committee has met 13 times, and its work has been marked by major differences of opinion. The declaration of ministers made in Singapore, emphasised the importance of having a co-ordinated policy. The declaration stressed that the complete implementation of WTO agreements is of decisive significance for sustainable development.

The EU has set out an overlapping position on trade and environment in the form of a message which forms the basis for the EU's actions in the WTO, etc. The EU believes that a liberalisation of trade will lead to a more effective use of the earth's resources. This is something which offers both economic and environmental benefits and by guaranteeing greater efficiency, trade can help reduce the pressure on the environment. Positive environment effects will not be achieved automatically however, they can only be attained if a suitable environment policy and sustainable development strategies are implemented both nationally and internationally.

The EU takes a positive view of the coupling of trade with the environment and believes that they can be mutually supportive. Environment policies can also encourage economic efficiency and enhance productivity. Aiming for improved environment quality also creates a global market for a growing environment industry. The Commission notes that the market for ecologically sound products is growing.

Particular attention must be given to the needs of developing nations as growing environment demands can result in unwarranted economic and social costs for these countries. An optimal environment policy can call for different environment regulations in different countries.

A working group within **UNCTAD** (United Nations Conference on Trade and Development) has been studying the coupling of trade, environment and development with the aim of encouraging sustainable development paying particular attention to the problems and conditions which prevail in developing nations, and the least developed countries in particular. UNCTAD emphasises the importance of the measures that are needed to help developing nations attain the environment goals agreed. These include measures to stimulate trade with environment friendly substitute

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[10] The EU Commission speaks on behalf of all EU member states.

products and to transfer technology. Environment friendly products are seen as both an opportunity and an obstacle to trade.

Eco labelling which differentiates between products is thought to be likely to lead to discrimination. The working group within UNCTAD stresses the importance of emphasising the various environment and development conditions which exist in different countries. The working group is also issuing analyses of eco labelling projects and their effects on trade, the environment and development. The costs involved in meeting eco labelling criteria can be very substantial for producers, particularly small and medium sized companies.

UNDP (United Nations Development Programme) has performed 15 country specific studies in co-operation with UNCTAD, where a preliminary finding was that solutions aimed at bringing together trade and environment did not lie in trading rules or in weaker environment rules but were to be found above all in the development aspect, in capacity development and the transfer of technology.

The Development Assistance Committee (DAC) is the forum within OECD where the donor nations can discuss development strategies and development programmes. In 1989 the *Working Party on Development Assistance and Environment* was set up to work specifically with aid and environment issues. Sida/INEC is represented on the OECD/DAC.

In 1994 a workshop was organised on the theme of trade and environment which resulted in policies and concrete proposals for action for the OECD countries in their efforts to help the developing nations overcome obstacles to the export of their environment friendly products. This work is being continued by the Working Party. In 1997 a further workshop was organised, and an inventory of the donor countries' activities within the area of trade and environment was made, which resulted in the publication of *Case Studies of Donor Activities at the Trade-Environment Interface.*

5.4 Sida's activities within trade and the environment

Trade and trade and industry promoting initiatives from Sida are pursued through the Department for Infrastructure and Economic Co-operation, primarily within the unit for the development of Trade and Industry.

This department supports Sida's work with inititatives such as enhancing the export potential of developing nation products via marketing projects and by developing their institutional capacity. It also deals with capital funding and the development of co-operation and alliances between companies. Sida/INEC seeks to persuade the developing nations to invest in environment friendly products and organic farming and so reach a growing market in the western world. Sida/INEC also represents Swedish aid in international organisations within areas which concern trade and aid.

The following projects and activities within Sida aim to encourage the transition to environment friendly production in the developing nations in different ways.

- **Trade and Environment**. A report on the area of trade and environment produced by Sida's policy department. The report principally considers the questions of whether more liberal trade leads to negative environment effects and if the use of environment policy restraints is compatible with agreements on free trade. The report also considers the question of what actions aid organisations can take within the area of trade and environment which can increase market access for the poorer nations at the same time as the countries themselves are developed in a sustainable way.

- **Market Briefs**. Sida has produced two market analyses on trade and the environment:

  Trade and the Environment provides an overview of the situation on the Swedish market for environment friendly products. The report looks at eco labelling, environment management, public spending, trends and opportunities.

  Organic Food Products provides an overview of the Swedish market for organic food products. It deals with purchasing channels, environment demands, additives, packaging etc.

- **Certification Set-up Guide.** A guide book to simplify the setting up of inspection organisations in the developing nations. The guide contains "how to" information for certification, international standards etc. The book has been produced by IFOAM, the International Federation of Organic Agricultural Movement, an international umbrella organisation for organic farmers and others.
- **Environment standard for textiles.** The development of uniform international standards for organic textiles. IFOAM was responsible for creating these standards.
- **EPOPA – Organic agriculture in Africa.** A project which is engaged in developing agriculture and the export of organic agricultural products from African countries. The project supports farmers with training, organisation, certification and market contacts.
- **Environment seminar in India.** NATUR/INEC is going to hold an environment seminar in Tirpur, India. The target group is textile exporters and organisations plus government and local authority environment officers and the lecturers will be Swedish importers and researchers into water conservation. The object of the seminar is to provide the exporters with information on EU member state requirements for environment friendly production and the water situation in Tirpur, and how this is linked to the textiles industry. The aim is also to initiate a dialogue between the textile exporters and environment officers in the area.
- **Corporacion Fananiera Ambiental – Green venture capital fund.** To improve the chances of attracting the necessary investments to achieve sustainable growth for small and medium sized companies in Central America, Sida has made a USD 1 million grant to a green venture capital fund.

Sida supported projects

- **International Centre for Trade and Sustainable Development.** The centre gathers and prepares documentation on trade and the environment, particularly from the WTO, and makes this information available to private organisations through publications, periodicals and IT. The centre is independent but was initiated by IUCN – the World Conservation Union.
- **International Conference on Consumer Protection.** Sida supported the organisation of the International Conference on Consumer Protection in New Delhi in January 1997. The conference delegates were representatives of private organisations in South Asia. The conference was organised by Consumers International England and the Consumer and Trust Society, India.
- **Expert Panel on Trade and Sustainable Environment,** was organised by the World Wildlife Fund, WWF, in Geneva, Switzerland. The panel gathered representatives of authorities and private organisations and other experts within the field to analyse and put forward recommendations to the WTO Committee on Trade and Environment and others.

- **Eco Trade Manual,** deals with the situation in the EU countries: environment regulations, standards, environment policies, the transition to environment friendly production etc. The target group for the publication is developing nation exporters and export organisations. The Eco Trade Manual was produced in co-operation with CBI – Holland, NORAD – Norway and Danida – Denmark.
- **Environmental Quick Scan – Textile.** A manual for the textiles sector which contains product related, detailed information on laws, standards, technical solutions, packaging etc. The target group for the manual is textile producers, export organisations.
- **ISO 14000** – seminars in developing countries. In order to create awareness and insights into the importance of sustainable development plus knowledge of environment friendly technology, ISO is arranging seminars in seven developing nation regions.
- **Developing nation participation in standardisation meetings.** In order to give the developing nations more influence in international forums on eco labelling and environment management, Sida encourages the participation of specialists from the developing nations in ISO standardisation meetings.
- **Fair Trade**. Sida supports two organisations which promote Fair Trade:

1. **Föreningen för Rättvisemärkning** (The Association for Fair Trade labelling) promotes the introduction of trade in accordance with "fair trade" on the Swedish market. The Association co-operates with other fair trade organisations in such areas as producer lists and certification. Föreningen för Rättvisemärkning has now introduced coffee as the first product with the fair trade label in Sweden.
2. **Fair Trade Center** is a foundation which seeks to collate and disseminate information to consumers on the connection between private consumption by individuals and the effects on the environment and social conditions, particularly in the developing world.

5.5 Summary

The answer to the question of whether free trade is good or bad for the environment depends on the playing rules that apply. Free trade which is based on sound environment regulations can support the environment while a lack of concern for the environment can lead to uncontrolled damage to the environment.

Green GSP, preferential treatment within the GSP for environment friendly agricultural products, ought to be a way to encourage the transition to environment friendly methods in the developing nations.

Many organisations, both national and international, are active within the area of Trade and the Environment.

6 Standardisation and the market for ECO labelled products

Eco labelling and environment guidance are two systems with different aims. Eco labelling is designed to show customers the environment qualities of the specific product to enable them to make an environmentally aware purchasing decision. Environment guidance provides information on the company's internal procedures for structuring environment inititatives and as such this environment information is not product related.

6.1 Standards for environment guidance, environment audits and environment labelling

The International Organisation for Standardisation – ISO

ISO Technical Committee (TC) 207 is made up of seven sub committees and is the ISO section which develops standards for environment guidance, environment audits and eco labelling. These all fall within the ISO 14000 series. *The ISO standards for eco labelling are not eco labelling criteria for products, but rather standards for how eco labelling should be done.*

Two thirds of ISO members come from the developing nations. If representatives from these countries are to be given more say in the organisation and to be able to influence this work more effectively, they need to know more about it. **ISO DEVPRO** (ISO Programme for Developing Countries) was created to take the interests of the developing nations interests into account. DEVPRO publishes manuals, arranges seminars, provides training for representatives on ISO standardisation committees, etc.

6.2 Environment guidance

ISO 14000 is an international, internal instrument which companies can use to guide and develop their environment initiatives. The system embraces the company and its products from a life cycle perspective and the company sets its own environment demands. The fact that a company is certified to ISO 14001 standard does not necessarily mean that the company is better than other companies from an environmental point of view. It simply means it has satisfied its own targets. An ISO 14001 certificate can be used when marketing the company but not its products. ISO 14001 is, like EMAS, influenced by the British Standards (BS) 7750 system.

The EU has its own specific internal system, **Ecological Management Audit Scheme (EMAS)**. In addition to regulations on environment management, EMAS also requires that certified companies publish specific environment audits. ISO 14000 is approved as a part of EMAS. Only EU based companies can be certified to EMAS.

6.3 Environment audit

Environment audits are tied to environment management and done on a company's own initiative. Environment auditing means the company itself evaluates and measures the results of its own environment efforts. Auditing entails making regular environment audits and assessments of how well the company is living up to its own regulations, current legislation and its principles. Companies must also supply its executive, shareholders, employees, authorities and the general public with relevant information.

6.4 Eco labelling

Eco labelling means that products which meet specific environment requirements may be labelled with a special symbol. Eco labelling aims to make it easier for the consumer to choose products which cause the least environment damage and to encourage companies to develop more environment friendly products.

Eco labelling indicates that the product has been inspected and tested and then certified in accordance with the requirements laid down by the respective organisation. Eco labelling places demands on products and often also covers their manufacture. Labelling is generally financed by fees paid by the licensed companies. If eco labelling is to work as originally intended, consumers need to be environmentally aware and the labelling credible. Nor must it be too expensive or joining the scheme cause unreasonable bureaucratic complications for the producers.

6.4.1 Eco labelling criteria

Eco labelling is normally based on relative criteria where the best (least damaging) alternatives are awarded an eco label. Most eco labelling systems have a policy of tightening the criteria in direct proportion to the number of products eligible for approval. This can cause major problems for producers who are located so far from the market that they risk falling behind all the time as it is difficult for them to obtain information on changes in the market and to acquire new technology.

Certain eco labelling systems only take into account the finished product, others include the method of production too. The environmental impact throughout the product's entire life cycle – raw materials, manufacture, use, disposal/recycling can also be assessed (LCA – Life Cycle Assessment). Many developing nations are opposed to taking how a product is manufactured into account, and reason that this criterion for eco labelling acts as an obstacle to trade.

6.4.2 The different types of eco labels

There are around twenty different eco labelling systems in the world today. Certain eco labels have been created by environment organisations (e.g. the Swedish Bra Miljöval), other labels are official, for instance, the EU Flower and the Swan.

6.4.2.1 The EU Flower

Within the EU there is an overlapping official label – the "EU Flower". The EU Flower had problems gaining acceptance on the market and in developing new criteria. In Sweden only dyes are endorsed for the EU Flower. Only the criteria for papers and textiles are relevant to typical developing nation production. The criteria for T shirts and bed linen contain certain restrictions concerning the levels of pesticides in the fibres, which indirectly covers one particular environment demand on the product. The criteria for paper demand a high percentage of recycled paper, which works against exports from developing nations far from the market, as they must import recycled paper.

6.4.2.2 Blaue Engel

The German "Blaue Engel" is the oldest and most well known of the large number of other EU eco labelling systems. It was introduced as long ago as 1979 and is the largest eco labelling system in the world. It covers around 4,000 products. As with most other eco labelling systems, it does not cover very many products which are typical for the developing nations. Criteria for cane and jute, typical export products from the developing nations, are however currently being developed.

6.4.2.3 The Swan – The Nordic Region

The Swan is the official Nordic eco labelling system. There are around 1,500 Swan labelled products on the Swedish market. The majority of approved production is Swedish, and a quarter is produced outside the Nordic region. None of the finished products comes from developing nations, however a proportion of the finished products includes raw materials (pulp paper and textiles) which do come from there.

6.4.2.4 Bra Miljöval – Sweden

This label was initiated by the Nature Conservancy Board in co-operation with the retail trade. There are currently around 1,300 products which are Bra Miljöval labelled. No finished products come from the developing nations. However, raw materials from there are used in textile and chemico technical products. No specific environmental requirements are normally applied on such raw materials (e.g. requirements concerning cultivation). The exceptions are textile fibres and paper where the raw material is covered.

6.4.2.5 KRAV

KRAV is an inspection body for organic farming. The KRAV label has become the most recognised eco label for food in Sweden in a short space of time. One of the reasons for its major success is the widespread support behind the label. KRAV covers crops, livestock, distribution, refining and imports (see also sections 6.4.5 and 6.4.5.1).

6.4.3 Trade marks with an environment profile

In addition to the flora of eco labels for individual products which are independent of where they are sold, there are trade marks with an environment profile, which certain companies use in their corporate environment profiling. These labels are specifically related to the company itself. They offer no guarantees on the product's environment qualities, but are usually combined with an eco label. Examples of Swedish environment profile trade marks include "Änglamark (KF), "SKONA" and "Sunda" (ICA) and "Naturecare" (Polarn & Pyret).

6.4.4 The market for eco labelled goods

The market situation for eco labelled goods varies a great deal from country to country. In Sweden there are no comprehensive statistics for, or analyses on the market for eco labelled goods, so the information provided by the retail trade is probably the most reliable. The extent of eco labelling varies considerably between different product areas. The largest proportion of eco labelled products can be found within washing and cleaning products (approx. 85 per cent according to ICA).

When it comes to textiles and clothing products, an area highly dependent on raw materials and manufactured goods from the developing nations, the proportion of eco labelled goods is extremely low.

6.4.5 Organically grown products

Today 6 per cent of farm land in Sweden is dedicated to organic farming, only Austria boasts a larger proportion for organic cultivation. Organically grown products make up the oldest eco label, which has been in existence for over 20 years. In Sweden KRAV is the most widespread. In contrast to other eco labels, there have been international rules in this area for many years plus an accreditation procedure for certification bodies. The international rules are determined by IFOAM – the International Federation of Organic Agriculture Movements. IFOAM is a federation of some 600 organisations in over 110 countries. The membership is made up of producer, consumer, trade, research and certification organisations. The accreditation system for organically grown products is administered by International Organic Accreditation Services, a subsidiary of IFOAM. 12 certification bodies were accredited in March 1997. These are active in 53 countries of which the majority are developing nations. However, it should be noted that the majority of accreditation bodies are based in the industrialised nations.

6.4.5.1 EU Directive 2092/91

Since 1991, the marketing of agricultural products using terms such as "organic", "biological", "natural", etc. has been covered by EU legislation. The directive names specific terms for the various language areas. What differentiates this directive from e.g. the directives for eco labels is that *it is mandatory*. Directive 2092/91 means that no products other than those produced and inspected in accordance with the directive may be marketed as organic or similar ("biological", "natural"). The directive imposes very extensive demands on regulations for dealing with imports from third countries. The most important regulations are:

1. Countries which meet directive requirements must be included on a list determined by the Commission. The production of goods imported shall be subject to the direction of an inspection body which is specified on this list. Up to 1997 only 5 countries have been placed on this list: Argentina, Australia, Hungary, Israel and Switzerland.
2. The competent authority in the exporting country shall issue a certificate for each export consignment. The certificate shall state that the method of production is in accordance with a system which is equivalent that stipulated by the EU Directive.
3. The requirement that the country has legislation covering the marketing of organic products.

A major problem for developing nation producers who wish to export to the EU is therefore that the directive does not place demands on the individual producer directly, but rather on the legislation of the exporting country. It is unclear whether EU Directive 2092/91 and its application is in accordance with the agreement on technical barriers to trade (the TBT agreement).

Importer Derogation or "the back door" is an exception rule which was introduced because third country imports were on the verge of totally stagnating. The rule means that importers can be permitted to market organic products which do not originate in the countries on the list, if they can provide the competent authorities in the member state with evidence that the product has been produced in accordance with a system that satisfies the demands of the EU directive. This exception rule is administered by the individual member states. How this rule is applied differs from member state to member state – one product can therefore be imported into one EU country but not another. On the other hand, once a product has entered the EU, it may be freely sold on to all the other EU countries.

The exception rule was intended to expire on 31 July 1995, but an extension was granted until 31 December 2002. At least 80 per cent of all imports to the EU come through this back door today. For the importers, imports from a non EU country entail a great deal of extra work and uncertainty over whether or not the product will finally be approved. The risk is therefore that the importers will prefer goods from another EU country or from a country on the Commission's list. Consequently EU Directive 2092/91 places major restrictions on market access for organic products from the developing nations.

To date IFOAM has not succeeded in its efforts to have production which is certified by an IFOAM accredited inspection body also approved for import into the EU.

6.4.5.2 Certification of organically grown products

There are over 200 certification organisations in the world. Most of these are in Europe and North America, however around 20 are based in the developing nations. Of these, only Instituto Biodynamico of Brazil has been accredited by IFOAM.

6.4.5.3 Foreign producers

It is normal practice for certification organisations for organic farming to not only certify production abroad, but also foreign companies. KRAV also licenses foreign producers who are certified by other IFOAM accredited certification bodies, which means that they can gain access to the KRAV label.

The costs for external certification can be extremely high in the developing nations. Local inspection bodies would enable these costs to be reduced. Local bodies must however gain international recognition, and this is a long road to travel and often calls for the assistance of expensive consultants. The development of "partnerships" between an accredited inspection body and a local body can be a possible route to facilitate the growth of domestic inspection bodies in the developing nations.

6.4.5.4 Product range

All kinds of agricultural products, including fibres and refined foodstuffs, are certified. A handful of organisations, including KRAV, also certify textile processing. KRAV's list of approved producers features around 1,500 products, and some sixty importers are monitored by KRAV. These importers mainly import colonial goods, fresh fruit and vegetables. Via the IFOAM accreditation programme, products which are approved by other accredited inspection bodies can also be labelled as KRAV approved. KRAV has developed specific data for organic farming in the developing nations.

6.4.5.5 Organic products in the retail sector – Sweden

Both ICA and KF (major Swedish supermarket chains) have aligned themselves with the so called 10 per cent goal, that is to say that 10 per cent of Swedish agriculture shall be organic by the year 2000. The companies also aim for 10 per cent of their sales to be made up of organic products. In 1996 organic foodstuffs had the following share of sales at ICA: flour 2–7 per cent, coffee 1 per cent, baby food 6 per cent, onions 35 per cent, beetroot 35 per cent, potatoes 4 per cent. At Gröna Konsum (KF) organic products had a 12 per cent share for carrots and potatoes and 4–7 per cent for flour, grain and bread[11].

Organic coffee has been on the market for about five years but only made its breakthrough[12] in 1996 when the major coffee companies started to use it (all coffee roasters now take organic coffee). More and more sorts of organic coffee are being launched and sales to domestic households are now starting to take off.

Organic bananas also made a breakthrough in 1996 when between 0.5 and 1 per cent of all imported bananas were organically grown. This share is expected to double in the course of 1997. These organic bananas are currently sourced only in the Dominican Republic. Volumes are still too small to permit cheap and efficient handling, and organic bananas are 40–50 per cent more expensive than normal bananas.

6.4.6 Organic fishing products

The Marine Stewardship Council (MSC) is an independent private organisation founded by the WWF and Unilever to promote sustainable fishing. The MSC is currently developing criteria for the eco labelling of fish products. Fishing industry companies which can meet environment demands should be able to have their products certified by independent accredited certification organisations. The first eco labelled fishing products are expected to reach the market in 1998.

6.4.7 Sustainable forestry

6.4.7.1 Forest Stewardship Council – FSC

The FSC is an eco labelling system for products from sustainable forestries. The FSC is an international organisation made up of representatives from both the environment movement and the industry. The FSC has developed global principles for sustainable forestry, which are to be further

[11] Source Grolink
[12] The breakthrough for coffee and bananas can largely be explained by specially directed campaigns during the Nature Conservancy Board's "environment friendly week" in 1995 and 1996.

refined to form national standards. Products from such forestries can be marked with the FSC label. The rules for the labelling of mixed products are still not clear. FSC-Sweden is the first country to have a finalised national standard for certification. In 1996 there were five certification bodies accredited by the FSC. All are based in industrialised countries.

6.4.7.2 The market for certified forestry products

Around 3 million hectares have been certified in the world today. The total volume of certified products is still very small, around 2 million m^3/yr (Sweden's timber production is approx. 70 million m^3/yr). Within the WWF 1995 group which comprises 54 companies, the proportion of certified timber and timber products, is 4 per cent of sales. This is equivalent to over USD 100 million in value. The market share is mainly limited by the access to certified timber. Certification is important for suppliers to avoid being boycotted. A large number of buyers boycott tropical timber as they do not wish to contribute to the clearing of rain forests.

6.4.7.3 Other initiatives

In addition to the FSC system, there is a series of private initiatives with an environment profile within forestry, in both the industrialised and developing nations. One such has been developed by Aracruz in Brazil, the world's biggest pulp producer with 23 per cent of world production. Their system is not based on eco labelling but aims to create a better environment profile for the company, including ISO 14001 certification. In both Sweden and a number of other countries a tug of war is going on within the forestry sector. The battle is between those initiatives which are based on the FSC system, and initiatives linked to ISO 14000 certification. The environment movement and forestry companies work to an FSC standard while the forest owners' movement wants some form of ISO 14000 certification.

6.4.8 Purchasing channels

Despite the fact that there is considerable interest in organic agricultural products and other environment friendly production amongst large consumer groups it can sometimes be difficult for producers of these goods to sell their products. This is partly due to the fact that organic products are often handled outside the usual distribution channels. It can therefore be difficult to find channels to reach interested buyers for organic products of the type traditionally sold on the major raw materials exchanges. This is particularly the case for raw material products which must go through several refinement stages before they reach the consumer. One example is the textiles industry, where the manufacturing process is divided into many steps where every production stage is separated from the preceding and succeeding stages. This fragmentation means that no-one has overall responsibility or influence over the entire production chain. The incentive to buy organic cotton must therefore come from the buyer of the finished garment who must influence the entire production chain; the sewing – dyeing – weaving – spinning – growing of the cotton. This method of working is unusual within the clothing sector, which is one of the problems organically grown cotton has in reaching the end consumer.

Another obstacle to increasing the amount of organic and environment friendly products on the market is the trend for middlemen to tend to add higher margins when trading these products than when dealing with conventional goods. This makes organic and environment friendly products unnecessarily expensive and in certain cases they risk remaining niche products. To an extent, the higher margins on these products can be justified by the fact that they require special purchase channels and handling and that the volumes are tiny. Within certain sectors, which deal with eco labelled products especially, there can however be a vested interest in marketing these types of product as exclusive special products.

6.4.8.1 International market development

The market for organic products is developing in all countries. The value of these organic products probably amounts to around USD 5–10 billion. Denmark and Sweden lead the way, per capita, while the largest single market is the USA (estimated market value in 1996 USD 3 billion). Annual market growth is around 15–25 per cent. The market for organic products is growing in the developing nations, too. In most cases, access to products will probably be the greatest limiting factor.

6.5 Fair Trade – labelling

FairTrade is a system which seeks social improvement in the producing country and the first stage in the trade process. Fair Trade primarily involves trading directly with small holders and co-operatives. Buyers undertake to pay a price that is above the world market price, to pay a further premium for organic production plus to provide advance payment. The exporters undertake to operate under democratic conditions, not employ child labour, and have a goal of avoiding chemical additives.

Strictly speaking, Fair Trade is not an eco labelling system, but environment demands are part of the criteria. Environment demands have been introduced into Fair Trade in the same way as social demands are beginning to be introduced into the criteria for organic farming. Both areas have a strong mutual connection as consumers often impose the same demands that products be environment friendly and produced in an ethically acceptable way.

The concept of Fair Trade exists in around fifteen different countries under different names (of which Transfair and Max Havelaar are the most common). The Swedish system is brand new and called “Rättvisemärkningen”.

6.5.1 The market

Coffee has been the product which has traditionally been the biggest in this area. In countries where Fair Trade coffee is marketed, the market share varies from 0.5 per cent (Denmark) to 5 per cent (Switzerland) of the total coffee market. Customers pay an extra “premium” of SEK 5–6 per kg for Fair Trade labelled coffee. The farmers are guaranteed 5 US cents/pound of raw coffee above the world market price. They also receive an extra premium of 15 cents per pound of raw coffee if they farm organically. Other Fair Trade products include tea, chocolate and bananas.

6.5.2 Other initiatives for social labelling

The Rugmark Foundation in India certifies good working conditions in the rug industry. The ILO has put forward proposals for social labelling. Thoughts have also been voiced on creating an equivalent to the ISO 14000 system in the social area.

6.6 Summary

A virtually negligible share of environment labelled products come from the developing nations. The majority of existing environment labels cover areas where no or very little competitive production comes from the developing nations. The exception is organically grown products and products from sustainable forestries.

EU Directive 2092/91 is a factor which hinders developing nation opportunities to increase their market access for agricultural products.

Despite the growing demand for organic products, it is often difficult for sellers and buyers to reach each other due to the fact that the marketing channels for these products are not yet fully developed.

Apart from within agriculture, eco labelling on its own is of little significance for exports from the developing nations today. Environment legislation and special purchase conditions imposed by importing companies who are concerned about their environment profile are of greater significance for developing nation exporters at the current time.

7 The market as an environmental force

Market demands are becoming increasingly important. One of the earliest signs of this was eco labelling which offered consumers guidance on which products were environment friendly and had been produced in an environment friendly way. *At the present time, general environment profiling by companies in the industrialised world is far more significant – particularly to developing nation exporters – than eco labelling* . The companies are anxious to project a good environmental profile to consumers. Environment demands often not only embrace both the content of the product but also its entire life cycle, which means that the import companies make environment demands on every stage of production.

7.1 The consumer movement

7.1.1 The consumer in industrialised nations

According to Agenda 21, unsustainable consumption patterns are one of the most important causes of environmental strain, particularly in the industrialised nations. Accordingly, encouraging consumer awareness and with it consumption patterns which cause less environmental strain is one of the aims of Agenda 21. Consumers world-wide have a major role to play in the transition to environment friendly consumption. Their central role in this is increasingly being brought to attention. Consumer actions in the marketplace are a powerful motivational factor in modifying products and production patterns. Signals from consumers are transmitted along the entire commercial trading chain all the way back to the producer.

Consumer preferences cannot be regulated by organisations and authorities. The entire commercial chain is, from start to finish, totally dependent on the consumer's choice of purchase. This choice is influenced by a number of factors, however. Advertising in the Press, on TV and at the cinema has a direct influence on purchasing, but adverts also hard sell a life style where consumption is the principal ingredient. Consumers are also influenced by numerous structural factors in the society around them which make it more difficult for the individual consumer to make an individual choice. For instance, doing without a car demands decent public transport, choosing organic food demands access to a varied selection within easy reach, etc.

The extent to which environment costs are included in the price of a product can however be influenced by the authorities. Internalising the costs to the environment in this way would lead to radical changes in competitiveness and prices for certain product groups.

The consumer movement is a significant factor when it comes to changing patterns of consumption. The traditional role of consumer organisations has been to act as a watch dog protecting consumers from dangerous products, misleading advertising, exorbitant prices and faulty products. The consumer movement is now combining these traditional activities with greater concern for the environment, social conditions and other life style issues.

With the weight of public opinion behind them, consumer groups can put pressure on politicians and organisations both nationally and internationally to persuade them to sanction an infrastructure which facilitates the transition to sustainable consumption. Partly as a result of lobbying by Consumers International, an international consumer organisation whose membership comprises 215 associations in 90 industrialised and developing nations, the UN Commission on Sustainable Development has now proposed that the UN Guidelines for Consumer Protection should also include guidelines for sustainable consumption patterns. These guidelines focus on the sustainable consumption of goods and services.

Greenpeace, the Nature Conservancy Board, the World Wildlife Fund and other organisations within the environment movement often address consumers directly in order to mobilise them into action on behalf of greener consumption. *Environment conscious consumers who are prepared to change their* *consumption behaviour are the starting point for all eco labelling. Without their support, such labels would be meaningless.*

Regulations and directives to encourage sustainable development need to be monitored to be effective. As authorities have limited opportunities to do this, consumer and environment organisations have an important part to play in ensuring that regulations are complied with.

The consumer organisations and voluntary bodies can influence the producers more directly in a variety of ways. Consumers themselves have now begun to realise the extent of their power and capacity to influence companies by imposing both environmental and ethical demands on them. They have become more knowledgeable about the structure of commerce and are not longer solely interested in what a product contains, but also how and where it is produced. Actions which play on the feelings of the public, for instance boycotts against producers, can become very popular. Media publicity about harmful products can put pressure on producers to rethink their production in a more sustainable direction. A classic example of a major company coming under the spotlight is Shell, which was forced to abandon plans to sink an oil platform in the North Sea, after being threatened with an international boycott. The boycott subsequently led to Great Britain banning such dumping. As the general public tends to put their trust in environment organisations rather than in companies, even the largest companies have to heed public opinion on the environment.

If consumers are to be able to take conscious action, they need to be presented with impartial information. Which means the consumer organisations have a very important role to play in providing consumers with information. The consumer organisations frequently run information campaigns and other educational initiatives aimed at raising consumer awareness. Many organisations also publish their own newspapers, books and other educational material.

Globalisation within all areas has also given consumers more insight into and a greater interest in conditions in the countries where the goods are produced. This has led to a more two way relationship between consumers and producers and in the future active consumer groups are expected to be a more significant factor in both the environmental commitments of companies and official actions in the area of trade policy.

7.1.2 The consumer in developing nations

So far, we have discussed environment demands on goods imported from the developing nations. This means that we have only been concerned with the transition to environment friendly production of export goods from the developing nations. Export goods are often manufactured by transnational or other large companies and this production does not affect the local consumers. As such, the transition to environment friendly production is seen by the powers that be as purely an export requirement separate from local needs.

This has helped increase the gulf between South and North in trade organisation discussions too. Spokespersons for the South often have little or no sympathy for environment demands, and see them purely as covert trading obstacles. The low level of environment awareness means that the benefits of environment friendly products and production to their own environment, workforce and consumers are not always appreciated. Spokespersons for governments in the South are also not pressurised by well informed and powerful consumer groups who demand environment friendly products and a stop to manufacturing that is harmful to the environment.

There is a large middle class with potent purchasing power in many developing nations today. Globalisation has resulted in consumers in the developing nations being bombarded by aggressive and unchecked marketing of western products and western life styles. This has been a contributory factor in the demise of traditional, domestic, often environment friendly products, and their replacement by products which demand substantial resources in the form of energy, chemical additives, transport and packaging. "The American Lifestyle" is accorded high status in many developing nations, while awareness of the environmental damage this lifestyle brings with it, has not made anything like the same impression.

The lack of consumers with the awareness to request environment friendly products and who involve themselves in environment issues means that the domestic market for environment friendly production is very limited in the developing nations. As such it does not generally profit non exporting small and medium sized companies to make their products and production environment friendly (making export industries more environment friendly can however have ripple effects, see 7.3.2).

Most large environment organisations, the Nature Conservancy Board, Greenpeace, the World Wildlife Fund, etc., also have branches in the South. There are environment movements in many developing nations that are highly knowledgeable about environment problems. As these environment movements becomes stronger, it is possible public opinion will start demanding a transition to environment friendly production in the developing nations, too.

7.2 Public spending

Public spending, i.e. purchases made by governments, local authorities, health and education bodies etc., represents a major potential market. In Sweden, total spending by such authorities amounted to around SEK 280 billion in 1993. The European market as a whole is worth over SEK 6,000 billion. If purchases for this market had to comply with a co-ordinated environment policy, it would have a major influence on the environment friendliness of manufacturing companies all round the world.

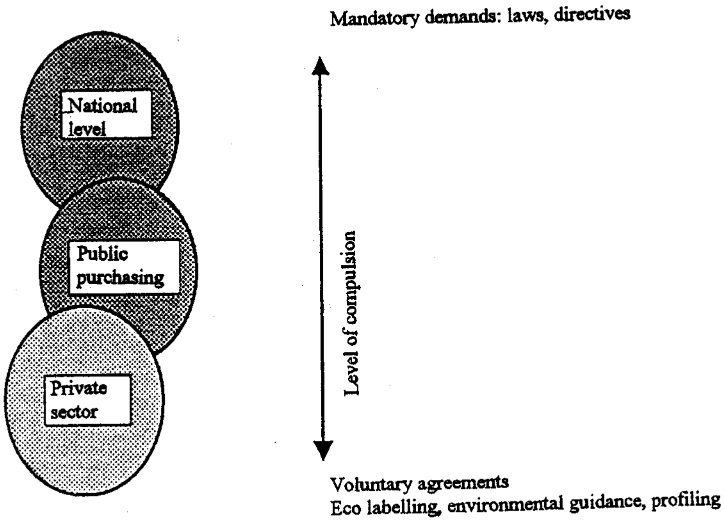
Authorities in Sweden are encouraged by the government to adopt environment friendly purchase procedures. Increased environment demands in this area would enable environment friendly products to gain a much wider market, and one seen as solid and stable. The latter is important, as many producers are hesitant about making expensive investments in environment friendly technology as they are uncertain about the market's long term environmental preferences.

A questionnaire reveals that most Swedish health and education authorities impose environment demands on all kinds of potential suppliers in principle. The Gothenburg area council has imposed far reaching environment demands on all invitations to tender to supply and many other local authorities are following their example. Several Swedish local authorities have resolved to specify organic food in school dinners although such decisions have only been implemented to a lesser degree. Other EU countries are also imposing environment demands on all invitations to tender to supply. It is doubtful, however, how far reaching such demands may be, while remaining in accordance with the EU directive.

If far reaching environment demands are imposed on public tenders to supply within the EU, this would have an immensely powerful effect on the market. The danger then would be that developing nation exporters and sub suppliers would find it very difficult to compete. If such demands were harmonised across public organisations nationally and internationally, and trading rules and criteria within the environment area were shaped such that developing nation exporters could meet them, public body purchasing would however be able to facilitate the transition to environment friendly production in the long run in the developing nations too, as this would comprise a large, stable and homogenous market.

Public purchasing commonly lies between the national level and private companies. (figure 6.10). This type of purchasing is subject to more regulations and directives than the private sector, yet still has greater potential to impose environment demands not included in national or international agreements.

Figure 7.1 Public purchasing



7.3 The environmentally profiled company

7.3.1 Companies in the industrialised nations

Companies are increasingly treating environment issues as strategic to their survival and development. Maladroit management of environment issues can have major negative consequences for a company's competitiveness. It is vital not to be branded an environment sinner. To an ever increasing extent, customers are going to make demands on a company's environment policy. They are going to demand environment friendly production and sometimes even environment strategies and environment management, demands which producers in the developing nations will have to adapt to if they wish to retain their market shares.

As such, one can envisage a trend in which customers gain greater influence over a company's environment policy – market forces will increasingly be the driving force behind environment initiatives and corporate strategies on environment issues. And there will be winners and losers in this evolution. The latter will be those who either do not want to adapt to environment demands imposed by the market place, or cannot adapt quickly enough. The winners will include the producers of goods which fit in with a virtuous circle society and which are based on the principles of sustainable development.

7.3.2 Companies in developing nations

Within the private sector, as with the public sector, there still remains certain conflicts between the environment and production. Environment regulations in the industrialised nations are seen as an obstacle to increased production and something the industrialised countries impose on the developing nations to hinder competitiveness. However, environment demands which are transmitted via the market from customers and consumers – "business to business" – are interpreted in totally different ways. Here it is a question of commercial demands rather than government requirements – so the company either meets its customers' demands or loses a market and consequently revenue.

The developing nation companies which will face environment demands at first hand, are the export industries. These companies will act as catalysts and disseminators of environment friendly technology and production methods. They will be able to demonstrate that environment friendly production is profitable, even from a purely business economics perspective. Domestic production can then follow suit, especially if consumer organisations have the opportunity to push up demand for environment friendly products.

7.3.3 The role of the importer

General efforts by companies in the industrialised world to become more environment friendly and their ambitions to acquire an environment friendly profile are highly significant for exporters and manufacturers in the developing nations. This sector, which in Sweden encompasses major retail chains such as Hennes & Mauritz, Lindex, KappAhl and IKEA, department stores like Åhléns and superstores like B&W and OBS, impose both environment and social condition demands in their purchase terms for suppliers. The environment demands these companies impose are not as far reaching as the demands required for eco labelling. One must therefore differentiate between environment friendly and eco labelled products. For environment friendly goods, the most important conditions are the ban on certain harmful chemicals and the requirement that production is done to an acceptable environment standard. *However, it is these environment demands, rather than any demand for conventional eco labelling, which currently pose the greatest challenge to developing nation exporters.*

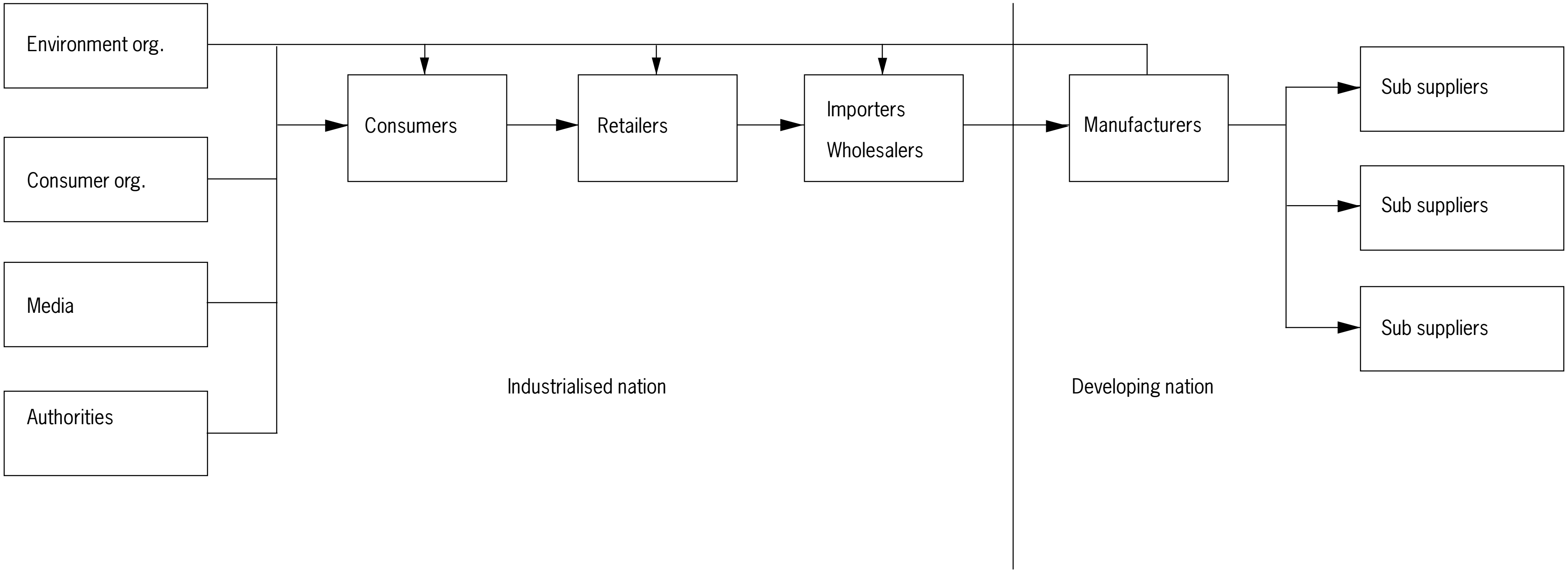
Those companies which fail to meet these demands will be knocked out by more environment friendly competitors. If developing nation exporters are to retain their customers, they must start adapting their manufacturing in line with purchaser demands for environment friendly production immediately. For many companies, this process will not be so simple. In many cases, they have insufficient knowledge of how environmentally harmful chemicals can be replaced by more environment friendly ones. Many countries also lack the infrastructure such as test laboratories and trained personnel to check the chemical content of products.

7.4 Environment friendly trade

We have seen above how three groups of players – consumers, producers and importers – can influence production in an environment friendly direction via market forces. Their respective significance varies from market to market and for different types of production. The tendencies in societies also point towards market forces being an increasingly significant factor when it comes to environment demands[13]. It will also largely be through international trade that environment demands will spread to the developing nations, firstly through demands on their export industry, which will subsequently also percolate through to their domestic industry. Sub suppliers to the export industry will face environment demands if they wish to continue to supply goods. In the scenario painted here one can picture trade as supporting the process towards environment friendly production. Companies which pollute and are inefficient in their production processes, which use dangerous chemicals and exploit their workforce, are expected to encounter problems in the future. They run the risk of seeing their market shares captured by more environment friendly competitors.

[13] An example of the significance of environment demands imposed on public purchasing is the Swedish Roads Authority demand for fuel consumption statistics for its company vehicles.

Figure 9.1 *The significance of environment demands and the ripple effcts on product manufacturing in the developing nations.*



7.5 Summary

Consumer and environment organisations influence producers via the consumers. Environmentally aware consumers who are prepared to change their behaviour are imperative if eco labelling systems are to work.

Efforts to increase environment awareness amongst consumers in the developing nations should help increase the local market for environment friendly products there.

Public purchasing within the EU offers tremendous potential and environment demands within this area can have a major impact.

Trade and industry wants an environment friendly profile and so imposes higher environment demands on sub suppliers. This type of environment demand is the biggest challenge for developing nation exporters as general trade and industry involves massive volumes.

Companies which cannot meet the environment demands of importers are expected to experience difficulties in remaining competitive with more environment friendly companies.

8 Obstacles and opportunities for the export of environment friendly exports from developing nations

8.1 Problem areas

8.1.1 The transfer of environment problems to the developing nations

Environmentally harmful products, which have been banned in the industrialised world, are in many cases being dumped on developing nation markets. Environment legislation and environmentally conscious industrialised countries have in effect meant that in certain cases problems have been shifted to the developing nations. Environmentally hazardous production has also been moved, or threatened to move. Examples include tanneries and the leather industry which has largely relocated from Europe.

Another example of transferring environment problems from the industrialised nations to the developing nations is environmentally hazardous waste. Instead of being disposed of in Europe, such waste is often transported to various developing nations for dumping. Trade in, and the storage of hazardous waste is regulated by the Basle Convention which came into force in 1992.

8.1.2 Fall in demand due to increased recycling

Increased requirements to recycle and in certain cases use more environment friendly substitutes have reduced markets for traditional raw materials from developing nation. The fall in demand for ores of various kinds is already clearly marked in many developing countries, for instance Zambia and copper.

8.1.3 Transportation and energy consumption

The developing nations suffer a competitive disadvantage due to the long distances from their important export markets. Environment friendly products can become less environment friendly due to the long transport journeys involved. Transport costs only make up a small and reducing part of the product costs. One of the reasons for these low costs is the difficulties in taxing operating fuel consumed by international transporters. The shipping companies are free to choose where they purchase their fuel. If one country levies tax on it, the company will naturally choose to buy its fuel where it is tax free. International agreements are required to harmonise energy taxes in order to be able to levy tax on fuel.

Life cycle analyses take the entire energy content of a product into account. Certain developing nation products would then appear to have a large environmental impact while other products, despite the long transport distances, would appear in a more favourable light than local production. For instance, vegetables grown in greenhouses in Northern countries can require more energy than crops grown in the South, even when air freight is included.

8.2 Environmental demands, regulations and labelling system(s)

Environmental legislation and voluntary agreements on environment standards etc. can lead to problems for developing nation economies as they can make export more difficult in many areas. It is not only formal environment demands that can shrink markets for developing nations, to a certain extent voluntary labelling can do the same if these countries cannot adapt their production to meet the demands stipulated for the products to be classed as environment friendly.

Many developing nations have great difficulty in meeting importer nation demands concerning technical directions and standards. These demands are often extremely complicated, and it is hard for the developing nation exporter to acquire knowledge on all the details which must be met. Many developing nations also lack the know how and infrastructure (laboratories, trained personnel etc.) to perform the inspection and testing required. Technical directions and standards can therefore form major barriers to increased market access for many developing nations.

8.2.1 Awareness of environmental demands and the possibilities of meeting them

Producers in the developing nations are often ignorant of the different eco labelling systems, what demands they stipulate and how to go about gaining product approval. It is also often difficult for producers in the developing nations to meet the certification requirements enabling them to eco label their products. Criteria for these environment requirements are generally laid down from an industrialised nation perspective and take little account of developing nation circumstances. It can therefore be difficult for equivalent environment friendly products from developing nations to gain an eco label.

8.2.2 Lack of harmonisation

The absence of homogenous standards, procedures and demands across the industrialised countries further complicates market access for the developing nations. Establishing national eco labelling systems in the developing nations cannot, at this moment, facilitate trade (they can however be significant for the domestic market). The areas of organic agriculture (IFOAM), sustainable forestry (FSC) and Fair Trade do have internationally harmonised rules, which facilitates market access for the developing nations. However, organic farming is hampered by national and EU legislation. With regard to the other types of eco labelling, there is a total lack of harmonisation of rules and mutual acceptance between the different systems today, although a number of initiatives are currently in progress.

Most eco labelling bodies work together in GEN (Global Ecolabelling Network), and the International Standardisation Organisation ISO is trying to develop standards for eco labelling. Greater harmonisation is desirable from the perspective of developing nation producers and others. From a consumer and environment perspective, it is important to ensure that harmonisation does not lead to a fall in the level of environment demands, or that consumer led initiatives are held up.

8.3 Greater environmental awareness creates new opportunities

In many developing nations, projects are underway to adapt their production to the environment demands of the industrialised nations and there are many examples of success stories in which developing nation manufacturers have found a market for their environment friendly products.

8.3.1 Manufactured goods[14]

India, which is a major exporter of textiles and clothing, is endeavouring to adapt to the environment demands of the importer countries. When Germany banned the use of azu(???) dyes in textiles, the Ministry of Environment banned the use of azu dyes in India in 1995. The Ministry of Textiles actively informs companies of the damage these dyes cause. They have also established test facilities and provide technical assistance to convert to other technology.

Century Textiles in Bombay is India's biggest exporter of cotton textiles. In 1995 Century Textiles became the first company to be certified by Öko-Tex, a German eco label. This certification enabled the company to obtain 8–10 per cent higher prices for their products and at the same time the market increased by 10 per cent.

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[14] Robin & Roberts, 1997

Swaziland

Master Fridge Ltd is the largest manufacturer of fridges and freezer products in southern Africa and exports the majority of its production to South Africa. In 1993 the company was the first in Africa to manufacture CFC free products. The cost of conversion has already paid for itself several times over for Master Fridge. The green strategy has resulted in Master Fridge's largest customer in South Africa tripling its orders with the company. The move to environment friendly production has also meant the workforce received more training and more secure employment.

Ecuador

Tagua Initiative. For over 100 years the tagua nut had been used as a raw material in button manufacturing. The tagua nut then lost out to plastic materials until the growing interest in natural products in the marketplace led several private organisations and local authorities in the Comuna Rio Santiago Cayapas area to start working together to manufacture products out of tagua nuts. In addition to buttons, the tagua nut is also used as a substitute for ivory in jewellery making. Since 1990 over 70 million buttons have been sold for a total value of USD 5 million. The future of 1,000 jobs has been secured and a further 1,800 created. By giving an economic value to the tagua trees, which grow wild in Ecuador, the Tagua Initiative also helps conserve the trees.

8.3.2 Ecological agricultural products[15]

As previously mentioned, it is in this area where environment demands by consumers have had the greatest influence on production in the developing nations. A few examples of export oriented organic production are listed below.

- *In Mexico* around 20,000 small farmers grow organic coffee. There are also a number of larger plantations.
- *In Costa Rica* there are around 2,000 organic farmers who mainly produce bananas and coffee.
- *In Guatemala* there is reported to be 7,000 hectares of organic coffee.
- Organic farming in *Argentina* is increasing rapidly, from 5,500 hectares in 1992 to 300,000 hectares in 1997. A quarter of production in Argentina is sold within the country, the rest is exported.
- Organic farming in *Uganda* amounts to around 30,000 hectares, farmed by 6,000 farmers. Cotton, sesame seeds and cocoa are exported.
- In *East Timor* 8,500 farmers produce organic coffee, which amounts to 10 per cent of production.
- There are 27 organic tea plantations around the world, which produce around 3,000 tons of organic tea.
- Organic cotton is grown on around 4,000 hectares in India, 3,000 hectares in Uganda, 500 hectares in Mozambique, 1,000 hectares in Peru and 700 hectares in Tanzania.

8.3.3 "New Products"

New markets can open up for developing nations. Synthetic materials can be replaced by natural ones, for example jute and sisal instead of artificial fibres. Another example is ready coloured cotton which does not need dyeing and therefore offers significant environmental advantages. As illustrated above, in many cases environment friendly production already exists in the developing nations, but it has difficulty finding buyers for reasons such as a lack of marketing channels, practical and financial opportunities to gain certification and a lack of market knowledge on the part of the producers.

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[15] Grolink

The development of natural medicines, new foods (functional foods etc.), cosmetic and biological pesticides also offers the tropical countries with their large biodiversity opportunities to develop new products.

8.3.4 Domestic market development

In the same way that the developing nations can gain export opportunities through environment demands and the industrialised countries adapting to virtuous circle systems, the domestic market conditions can also be influenced. In a number of countries, environment arguments are beginning to achieve a certain impact. Increased environment awareness in the developing nations leads to greater competitiveness for domestic products with environmental advantages. In certain cases, being able to develop production for export is conditional on the existence of a domestic market.

8.4 Environment friendly production in developing nations

8.4.1 Existing environment friendly production

Some developing nation production is more or less environment friendly, but is at risk of losing out due to increased competition. The clearest example is some parts of traditional agriculture, which is more or less run "organically", but where the yields are not high enough to survive competition. Only a small proportion of this agriculture is export oriented, while most is oriented to household self sufficiency and the local market. Instead of closing down these farms or using chemicals, it is quite possible to increase yields with the aid of improved cultivation methods.

8.4.2 The introduction of environment friendly technology

Even if there are certain areas where already existing production in the developing nations can benefit from the market for environment friendly products, there remains a number of areas where developing nation production simply must change in order to become sufficiently environment friendly. Not just to meet market demands, but more importantly because of the genuine environment problems in the developing nations. What is required to adapt to environment friendly production differs from sector to sector. In certain cases all that is lacking is knowledge (e.g. replacing chemicals). In other cases, investment in new processing technology is needed which, when implemented, will not necessarily lead to more expensive products.

Apart from aid measures dedicated to the introduction of new technology, etc., aid has the specific responsibility to ensure that all aid supported projects employ the best known technology with regard to environmental impact.

8.5 New alliances

8.5.1 Private organisations

Private organisations play a major role in pursuing environment issues. The Fair Trade movement, FSC and organic farming demonstrate the opportunities that exist to forge new alliances and relationships on an international plane. These alliances have not only forced the pace, they have also created new standards and contributed to new trading avenues.

8.5.2 Companies

There are also alliances between environmentally committed companies, environment and consumer movements and producers in the developing nations. The Body Shop in England is a prime example of such a company, which targets health and environment conscious consumers in the industrialised countries, and also sources many raw materials from the developing nations. Verner Frang AB in Sweden is another similar type of company which has worked with organic cotton in Peru for many years. Patagonia in the USA has switched over from conventional cotton to 100 per cent organically grown cotton. This type of company goes much further than those companies which impose restrictive purchase conditions on their suppliers. Such initiatives will probably have a major impact on the development of environment friendly products.

8.6 Summary

Environmental awareness in the industrialised countries has in certain cases meant that the problems have been transferred to the developing nations through the export of environmentally harmful products and the dumping of hazardous waste in these countries.

Increased recycling and the substitution of certain raw materials for other products has reduced industrial nation requirements for many traditional raw materials from the developing nations.

The developing nation producers have difficulty in accessing information on environment demands for eco labelling. The large number of different labels makes it harder for developing nations to make their production environment friendly. Technical directions and standards (technical trade barriers) create problems for developing nation exporters which many consider are one of the most serious obstacles to increased market access.

Environment consciousness also creates opportunities for developing nation producers. Natural products can be used instead of synthetic ones and the development of natural medicines, cosmetic and biological pesticides offers tropical countries with large biodiversity opportunities to develop new products. Many projects with environment friendly production and organic farming are currently in progress in many developing nations.

Part 2

Proposals for how Sweden and the EU via trade and aid policies, can support developing nations in the manufacture and export of environment friendly products

1 Background

Part I of the investigation describes and discusses the current conditions for trade between Sweden/the EU and the developing nations, plus the right conditions and circumstances for the production and export of environment friendly products from the developing nations to the EU/Sweden. The background report in part 1 forms the basis for proposals in part 2 addressed to Sweden and the EU for how the export and manufacture of environment friendly production can be increased through trade and aid policy measures.

The work on part 2 of the investigation has concentrated on discussions with relevant organisations – public and private – to ascertain and synthesise views on and the prioritising of the problems within the scope of the investigation.

These discussions have been very constructive and there has been a great deal of interest in the issues concerned. For instance, during the course of the investigation, the investigation team has received requests to participate in the discussions or to join the reference group. Such interest has come from both public and private organisations. Requests have also been received from various parties for the background report to be published as a separate paper.

The starting point for the work on the investigation has been the proposals for measures to strengthen the partnership between Sweden/the EU and the developing nations. Aid as an instrument to support the development of trade and the environment in the developing nations is significant in this context. An increase in trade can be a contributory factor in the transfer of new technology in the environment area and a better understanding of industrial nation demands for environment friendly products and processes. It is however important in this context to emphasise that such increased trade should not be at the expense of the environment in the developing nations.

2 Trade – Environment – Aid

In addition to the problem areas identified, the investigation in part 2, also takes as a starting point the intersection between trade, the environment and aid. The investigation has consistently viewed the problem areas from a developing nation perspective. The starting point has been the question of how environment friendly production and exports can be supported in the developing nations.

It is important that market access for the developing nations be increased via improved preferential treatment. Sweden actively seeks zero tariffs on all goods from the LDC countries. In this context, organic and environment friendly products should be given special priority. It is important that the EU re-examines the requirements on the import of organic production such that they can be formulated in a way which enables the developing nations to adapt their production accordingly. This does not mean that the requirements should be relaxed, but rather that they should be formulated in a way that does not cause unnecessary problems for developing nation producers.

The lifting of trade barriers is especially important for products within the agricultural and textiles and clothing sector. It is also important to encourage the growth of a domestic market for environment friendly products in the developing nations.

Development in the developing nations has often been achieved at the environment's expense. The establishment of industries has resulted in environmental damage in many cases, the external environment has been polluted, water and soil poisoned. In certain areas, the environmental damage has been so extensive that large numbers of the population have been unable to see any future in remaining in the area and have had to leave their home districts and become environment refugees.

Poverty in the developing nations is a contributory factor in environmental problems. The struggle to survive means that concern for the environment is not top of the list of priorities. Economic development for the poor is a means of improving the use of resources and with it the environment. A transition to environment friendly production and the opening up of new markets ought to be doubly beneficial. Firstly the economy would grow, secondly the environmentally harmful systems would be replaced by new environment friendly ones. A transition to environment friendly production would improve poor working conditions which are often also hazardous to health.

The developing nations often find it hard to understand and sympathise with the increased environment demands from industrialised countries, especially if the demands are thought to come from official channels. Demands that come via the market place – business to business – are often meet with greater sympathy. Accordingly, market demands can help increase appreciation of the need for environment demands and in so doing facilitate a transition to environment friendly production in the developing nations.

Aid has an important role to play when it comes to supporting the developing nations in the conversion process towards environment friendly production. Aid which boosts developing nation opportunities to gain increased trade (exports) and at the same time encourages moves towards environment friendly production, is of major significance to developing nation efforts to create sustainable economic development. Aid can be given on different levels and to different sectors which share the common goal of encouraging the transition process.

3 Action areas

In Part 1 a number of areas have been identified as forming the basis for measures which can be taken to support environment friendly production in the developing nations. It is important that there is consistency between trade policy and aid policy measures. This is lacking in this respect today, particularly where it concerns the different EU policy areas. For instance, market access for the developing nations must be improved while at the same time aid ought to support the development of environment friendly production capacity for exports.

The task of supporting the transition to environment friendly production in the developing nations must be tackled from several levels. Listed below are examples of levels and important issues which concern trade and the environment and support for environment friendly production in the developing nations.

Level	**Examples of problem areas and areas of responsibility**
Internationally	Trade policy (WTO), multilateral environment conventions, UN bodies
Regionally, EU	Trade agricultural and aid policies, eco labelling, environment agreements
Nationally, Sweden	Swedish policy/actions in supranational bodies, trade, agricultural and aid policies. Negotiations concerning trade and the environment, eco labelling, standardisation, certification, aid policy, laws, directives, inspection
Public sector	Public sector purchasing, environment demands
The private sector	Eco labelling, environment profiling, market access, environment demands, production processes
Individual organisations	Environment and consumer awareness

4 Proposals for trade and aid policy positions

Proposals for trade and aid policy positions within the area of trade, the environment and development co-operation are given below, taking the investigation's background report in part 1 as the starting point.

4.1 Trade policy

Within the area of trading policy which concerns the environment and the developing nations, Sweden's overall goal should be that:

- *Trade, aid and environment policies should be mutually supportive with the aim of integrating the developing nations into the world economy and to promote sustainable development.*

  Aid policy priorities should be mirrored in trade policies today via:

- *Sweden campaigning within the EU for tariff free entry and the abolition of import quotas for all products from the LDC countries and for a liberalisation of the country of origin rules for these countries.*
- *Sweden campaigning for the WTO to observe environment aspects in its initiatives.*

In order to develop and further consolidate efforts to integrate environment and aid aspects into trading policy, the investigation proposes that:

- *Sweden should investigate the pre conditions for a green GSP for the developing nations within the area of agriculture.*

  Sweden campaigns for the long term abolition of tariffs and other trading obstacles. Even though the GSP is complicated, the short and medium term goal should be to simplify and improve the system as far as possible. The investigation also believes Sweden should campaign for the creation of positive incentives for the export of environment friendly products, and to this end, is investigating the right conditions for implementing a green GSP in practice.

  It is important that product areas included in a green GSP be broadened such that in addition to forestry products, it also covers agricultural products. Criteria and systems for inspection should be simple and generally acceptable and the preferences should be sufficiently liberal to encourage the transition to organic production.

- *Sweden should campaign for the EU to accept IFOAM's criteria for organic products imported from the developing nations.*

  In order to facilitate the export of organic products to the EU, it is absolutely imperative that the EU accepts IFOAM's international criteria for organic farming. The EU's current demands, in accordance with directive 2091/91 cause major problems for exporters of organic farming products.

  EU directive 2091/92 falls under the remit of the Department of Agriculture but is raised here as it has major trading implications for the export of eco labelled products from the developing nations.

4.2 Aid policy

In the light of the significance of the interplay between trade and environment issues vis a vis development, not least for the poorest nations, the investigation proposes that Swedish aid should focus more on these issues.

Within the area concerning aid, trade and the environment, the following is proposed:

- *Aid, trade and environment policies should be mutually supportive with the aim of integrating the developing nations into the world economy and to promote sustainable development.*

- *Aid should be directed at increasing LDC country participation in world trade in particular.*
  The LDC countries' share of world trade is extremely low, just 0.4 per cent. Aid therefore has a major part to play in encouraging the integration of LDC countries in particular into world trade.

- *Aid should support the transition to environment friendly production in the developing nations.*
  If the developing nations, and especially the least developed countries, are to successfully adapt to environment friendly production, support of various kinds from the industrialised nations is imperative. One of the major tasks for aid is to contribute to this transition.

- *Aid should support exports, particularly that of environment friendly production from the developing nations.*
  In order to encourage the transition to environment friendly production and encourage exports from the developing nations which are not produced at the expense of the environment, aid should support developing nation exports of environment friendly products.

- *Aid should help increase the understanding of, and discussions surrounding the connection between trade and the environment.*
  In order to increase appreciation of the connection between trade and the environment and their significance for the developing nations, aid organisations should participate in national and international forums and support initiatives aimed at raising understanding of these issues.

5 Action areas within aid

From a starting point of the proposals for policies and measures within trade and aid policies presented above, a number of action areas have been identified for Swedish aid. Basing these action areas on the more overlapping policy issues, ensures that the concrete aid proposals do support the overlapping goals.

If the production and export of eco labelled and environment friendly goods in the developing nations is to be successful, every link in the entire chain – from producer to consumer – must support environment friendly production. The environment initiatives must be integrated into the entire chain from production to distribution and the surrounding infrastructure if success is to be achieved.

One pre condition for encouraging developing nation producers to invest in eco labelled and environment friendly production for export is that there is a guaranteed market, that the purchase channels function and that tariffs and other obstacles to trade do not make the project impossible to succeed. Proposals for the direction aid should take and the tasks it should perform are presented below. Several of the action areas are suitable for implementation through the co-operation of aid organisations within the EU. Aid must be prioritised from case to case, depending on the individual circumstances. Initiatives within several of these areas are in progress around the world.

5.1 Support for the development of institutions

- *Support for economic reform in the developing nations in order to develop environment friendly patterns of production and consumption.*
  Experiences from Sweden and other industrialised countries with regard to the use of economic tools (subsidies, taxes, fees, etc.) to facilitate and guide the transition to sustainable development should be conveyed to the developing nations.

- *Support to strengthen and develop environment institutions and environment laws.*
  Support is required to strengthen, develop and improve weak environment legislation plus to strengthen the monitoring and observance of existing laws.

- *Strengthening of the developing nations' negotiating capacity in international forums.*
  If the developing nations are to make themselves heard and have a genuine influence in international forums, in both trade and environment contexts, in addition to representation, they also need in depth subject knowledge, negotiating skills, the ability to interpret the results of negotiations, etc.

5.2 Support for environment and consumer organisations

- *Private organisations within the "Trade and Environment" area.*
  Support should be given to private organisations (NGOs) which operate internationally and overlap the areas of trade and the environment to boost developing nation expertise and participation in the international debate.

- *Information to industrial nation consumers on environment hazards caused by production in the developing nations.*
  To make consumers in the industrialised nations aware of environmentally harmful production, support is proposed for consumer and environment organisations.

- *Transfer of know how to increase environmental awareness in the developing nations.*

To increase the local market for environment friendly products and raise general environmental awareness in the developing nations, strong environment and consumer organisations are needed to inform the general public. Support is therefore proposed for such activities and the development of these types of organisation in the developing nations. In this context, it should be observed that environment and consumer initiatives in the developing nations can take other forms than in the industrialised nations.

5.3 Support for small and medium sized companies in particular

- *Transfer of knowledge about the environment demands of the industrialised nations.*
  If producers in the developing nations are to be able to make their production environment friendly, they need to be informed about the environment demands in the industrialised nations. This applies to both the requirements for eco labelling and converting to environment friendly production. Providing developing nation producers with relevant information on market opportunities for different types of environment friendly production is also of the utmost importance.

- *Environment friendly technology.*
  To convert conventional production in the developing nations into environment friendly production, access to new technology etc. is required.

- *Corporate co-operation – alliances*
  Support for the establishment of corporate co-operation between companies in the EU and the developing nations for the production of environment friendly and eco labelled goods.

- *Organic farming*
  Support in the form of knowledge transfer, certification support, market contacts is proposed for producers to convert to organic export crops.

- *Capital transfer for the promotion of environment friendly production (Green Fund).*
  In order to finance the transition to environment friendly technology and to make investments in new technology affordable, support in the form of capital to finance new investments is required. The opportunity for farmers who farm organically to receive advance payment would also increase their possibilities of being able to sell their products as organic, which can be more time consuming than selling them as conventionally grown. In order to make this financing affordable, it is proposed that a type of revolving fund which provides direct loans to companies, be established in those countries that express an interest. Developing nation companies would be offered loans on advantageous terms for investments in environmental measures. The starting capital for this fund would be raised through aid grants.

5.4 Sector co-operation between trade organisations in industrialised and developing nations

- *Trade organisations*
  Trade organisations in industrialised countries have a great deal of knowledge about markets, environment demands, regulations, procedures etc. within their business sector. Accessing this knowledge is very important for developing nation companies within the same sector. If business sector organisations in the industrialised nations were to co-operate with equivalent organisations in the developing world, which could be supported through aid, knowledge transfer can be realised and built up in the developing nations.

5.5 Export promoting initiatives

- *Market information*
  In order to enable producers and exporters to determine the potential for the successful export of their goods to Sweden and the EU, initial knowledge on the demand and export market prospects for these goods is vital.

- *Development of purchase channels for environment friendly production.*
  Eco labelled and organic products have comprised a niche market to date. The volumes are small and regular trading channels have not yet been developed. This makes it harder for producers and buyers to reach each other, and it is especially difficult for producers in the developing nations to contact importers in the industrialised world. To facilitate contact and therefore increase exports, it is proposed that aid be used to support the establishment of trading channels for environment friendly products from the developing nations.

- *Contacts and marketing*
  If the developing nations are to be able to expand their export markets it is important that entrepreneurs in these countries are supported in their efforts to make contact with buyers in the EU and receive help in the marketing of their environment friendly products. In this respect, IT – "electronic trading" is an important tool.

5.6 Support for the development of infrastructures for certification and the conversion to environment friendly production

- *Environment management and environment certification.*
  The introduction of environment management and domestic certification would raise environmental awareness in the developing nations and improve their ability to compete with reference to environment friendly production. In order to be able to implement this, investment is required in laboratories, testing equipment and personnel training.

- *Development of test laboratories etc., for production assurance*
  The developing nations do not just lack know how and technology, they also have a great need for hardware, such as for example laboratories and equipment to be able to implement production assurance and to measure the level of chemicals in textiles, emissions into the atmosphere and waterways, etc. In this context, training of personnel is also essential.

5.7 The co-operation of aid with international and national organisations

- *Initiatives for the international harmonisation of criteria for eco labelling*
  The vast range of eco labels to be found on the EU market is confusing for developing nation exporters. Aid should campaign for a harmonisation of the criteria for eco labelling which would facilitate developing nation producers in adapting their production to the environmental requirements for eco labelling. One condition for this is that harmonisation would not entail a dilution of these criteria.

- *Contribute to discussions in national and international organisations*
  It is proposed that aid organisations participate in national and international discussions on trade and the environment in order to promote developing nation interests there. It is further proposed that aid organisations should take an active part in the distillation of national positions on trade, and trade and the environment, so that aid policy goals can be taken into consideration in a balanced way.

5.8 Research support

- *The development of environment friendly technology adapted for the developing nations.*
  In order to make production in the developing nations environment friendly, it is proposed that research programmes within the aid system are also directed towards the development and adaptation of new technology, production methods, market systems, etc. Interesting areas for research include environment friendly technology, suitable for the developing nations, within agriculture, prawn farming, the cleansing of emissions, closed systems, genetic technology, etc.

- *"New products".*
  The development of "new" products based on the developing nations' biodiversity is another interesting area for research.

6 Areas where further investigation is proposed

During the course of the investigation several areas of importance for the developing nations were identified. The investigation therefore proposes that the following areas be further investigated:

- The situation for production and export in the LDC countries
- How TRIPs (Trade related aspects of intellectual property rights) and GATS (general agreement on trade in services) will affect the prospects and opportunities for exports from the developing nations to achieve sustainable development.

7 Conclusion

The work on proposals for policies and measures for Swedish and EU action within the area of trade and the environment has concentrated on providing a brief description of the problems and players within this area, and to put forward suggestions for areas of action which call for special aid initiatives. Above all, the work has sought to view the state of play from a developing nation perspective.

The transition to environment friendly production and consumption is a major challenge for world trade and demands global co-operation. Improved market access for exporters from the developing nations can provide resources to finance environment measures, improve efficiency and help the developing nations reduce their dependence on raw materials. Preferential trading terms ought to be a successful weapon in the fight against poverty. According to a UN report the developing nations lose twice as much through unfavourable trading terms as they receive in aid.

The responsibility for changing consumption and production patterns cannot be left to market forces alone, governments must strive for development in which sustainable consumption and production becomes profitable.

Aid assumes a new role in that developing nations can need various kinds of assistance to prevent industrial and agricultural production taking place at the expense of the environment in the developing nations. Aid initiatives are needed to support small and medium sized export companies so they do not lose competitiveness when the environmental demands are tightened.

It is important to conduct an active dialogue between the industrialised and developing nations and between the world of business and authorities, in order to create a united vision and prevent tension and suspicion. At present there is a certain gap between the often abstract focus of policy discussions and the more pragmatic concern many developing nation manufacturers feel in the face of anything which affects their export markets.

Environment friendly products are on the point of shifting from their small niche markets and gaining a natural place in the normal market offering. Marketing goods which have been produced in an environmentally and socially sustainable way is an opportunity for developing nations to boost their competitiveness and increase the value of their export products.

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