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# AGRICULTURE AND THE LINK BETWEEN TRADE, THE ENVIRONMENT AND GATT

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## INTRODUCTION

As the international and local debate around the Uruguay Round GATT negotiations evolved, we in South Africa paid scant attention to the trade implications of the environmental issues and their interface with trade in general. It is also doubtful whether we locally paid enough attention to the policy implications and possible negative and positive options thereof. The word tariffication terrified us. It thus happened that the environmental effects of GATT slipped by without receiving the deserved attention.

It is the purpose of this paper to look beyond the signing ceremony at Marrakesh and to pay attention to the link between trade, the environment and GATT. In conclusion the South African agricultural link will be touched on.

This sensitive link between trade and the environment comes a long way. When the cold war between East and West calmed down during the Reagan and Thatcher era, environmental affairs became a more prominent and constant point on the agendas of the world debate. During the UNCED conference in June 1992 a vote of confidence for an open, non-discriminatory trading system was reached. This was seen as a prerequisite for effective action to

- (a) protect the environment, and
- (b) generate sustainable development in developing countries to generate wealth so that their economic resource base could expand. A result of this would be an increase in income that could be used for cleaning up and protecting the environment and to promote sustainable development. (Elgin R., 1993; Sutherland P., 1994).

## THE WORLD TRADE ORGANISATION AND THE ENVIRONMENT

On 14 April 1994 at Marrakesh in the Kingdom of Morocco, the Ministers convening to sign the GATT Uruguay Round Agreement agreed to establish the World Trade Organization (WTO). A function of the WTO is, amongst others, to further the objectives of the WTO and of the Multilateral Trade Agreements. It also intends to provide the framework for the operation of the Plurilateral Trade Agreements. The preamble of the Agreement establishing the WTO states that members' "relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, **while allowing for optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment** and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development". (Agreement establishing the WTO, 1994)

To the question concerning the major factors which lie beyond the successful signing of the Uruguay Round, the preamble suggests that the environmental link with trade affairs to be a major one.

A **first** reason for this statement is very subjective from the author's side. It is based on the word "while" in the quoted preamble. Usually if I see this in a mission statement you can bet your boots on it that what follows is a compromise out of a deadlock.

A **second** support base is found in the following quotation: "... the environment is the trade issue

of this decade and likely to be, perhaps with competition policy, the two major issues of the next decade in trade terms. At least in my country, the environment is no longer a question for the tree huggers or for the smokestack lovers. It is an issue, as we would say, for Middle America. It is an issue that has arrived as a growing, day-to-day concern for the vast majority of American people" (Smith M., 1993). Demands for a cleaner environment and for environmentally friendly goods and services have been increasing worldwide; for the sake of both the environment and the trading system the need for multilateral policy cooperation is urgent (Sutherland P., 1994).

The reaction of Mr. Peter Sutherland, GATT Director-General, on the question of trade and the environment is a **third** reason: "Failure of the Round (Uruguay) would have dealt a devastating blow to multilateral cooperation, not only on trade matters, nor even only on economic policy-making in general, but in other areas such as international security and the environment". He said that developing and developed countries are now defining their future policy agendas on a foundation of deeper economic ties with their trading partners which is an excellent basis for pursuing global objectives in the areas of environmental protection and sustainable development. It is not debated nor challenged that the fundamental objective of the Uruguay Round was trade liberalisation so as to put the market back in its rightful place in all sectors including the agricultural, textile and clothing industry. The argument before and after Marrakesh is, however, that reducing trade restrictions and distortions encourages more efficient use of resources. An efficiency which hinges on the powerful role played by prices in the market economy which is the fundamental yardstick of the GATT trading system (Elgin R., 1993). The trade and environment argument is, however, ratified by Peter Sutherland's (1994) remark that "it is trade liberalization, not restriction, which holds the key in so many areas to producing a coordinated policy response to environmental problems by allocating scarce resources, including environmental resources, more efficiently and by generating wealth".

At the acceptance of and accession to the Agreement establishing the WTO on 14 April 1994 environmental affairs were high on the agenda. It was decided to direct the first meeting of the General Council of the WTO to establish a Committee on Trade and Environment open to all

members of the WTO. The Committee is to report to the first biennial meeting of the Ministerial Conference after the entry into force of the WTO. One of the WTO's first tasks will be "to identify the relationship between trade measures and environmental measures, in order to promote sustainable development; to make appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required, compatible with the open, equitable and non-discriminatory nature of the system, as regards, in particular:

- the need for rules to enhance positive interaction between trade and environmental measures for the promotion of sustainable development;
- the avoidance of protectionist trade measures, and the adherence to effective multilateral disciplines to ensure responsiveness of the multilateral trading system to environmental objectives;
- surveillance of trade measures used for environmental purposes of trade related aspects of environmental measures which have significant disciplines governing those measures (GATT Secretariat, 1994).

The Committee on Trade and Environment (of the WTO) will initially address, *inter alia*, the following matters:

- the relationship between the provisions of the multilateral trading system, and
  - (a) charges and taxes for environmental purposes;
  - (b) requirements for environmental purposes relating to products, including standards and technical regulations, packaging, labelling and recycling;
- the provisions of the multilateral trading system with respect to transparency of trade measures used for environmental purposes and environmental measures and requirements which have significant trade effects, etc. (GATT Secretariat, 1994).

It is thus clear that the last words on trade and the environment have not yet been spoken.

## ISSUES AROUND TRADE AND ENVIRONMENT

In the quoted preamble the optimal use of the world's resources is a feature. The interpretation of this statement seems neutral. It does however depend on your viewpoint. The traders would say that by definition the GATT says that the fundamental objective of trade is to seek the most efficient allocation of resources. The environmentalists will say that is precisely the problem; that this drive for the most efficient use of resources leads to the degradation of the environment. However, one cannot expect that agricultural trade policies can be transformed under GATT and at the same time reform the environmental problems associated with intensive agricultural production. Proper environmental and resource management policies are needed as well and these generally lie outside the competence of the GATT (Eglin R., 1993; Smith M., 1994; The World Bank, 1992).

Another "issue" is whether one country can claim jurisdiction over another country's natural resources and make use of a trade restriction to give force to that claim. The tuna/dolphin incident between the USA and Mexico is often used to illustrate the point. The USA imposed a trade embargo on tuna imports from Mexico on the grounds that Mexico's incidental dolphin catch was too high. The dispute panel which examined the case concluded that the GATT does not permit the use of trade measures to achieve extraterritorial objectives, in this case saving dolphins outside US territorial waters. The tuna/dolphin dispute illustrated an important element of many current environmental concerns. This is obviously so in the case of the ozone layer, the oceans, or the world's climate, which have to be shared internationally. The services of tropical forests which are valued by the rest of the world for absorbing carbon dioxide and for providing a source of biodiversity. The concern of the world wildlife conservationists that endangered species are killed, mainly not for food, and the trade in toxic waste were instrumental that governments negotiated trade measures to implement environmental agreements. Such agreements include the Montreal Protocol, the CITES and the Basel Convention. This route, namely multilateral co-operation, is suggested by GATT as the preferred course of action to find solutions to protect the resources in question. The fact that there are over 120 multilateral environmental agreements in existence should give cause for optimism in

this regard (Eglin R., 1993; The World Bank, 1992).

Eglin (1993) stresses the fact that as long as the trade measures in question are not discriminatory there is basically no cause for concern under GATT. There is of course an important caveat to this statement; all countries must sign an international environment agreement. However, experience shows that some environmental agreements with limited membership have incorporated discriminatory trade restrictions against non-signatories. The UNCED process is the instrument to counter these types of agreements; it forcefully reconfirmed governments' commitment to a truly multilateral process of cooperation in the field of environmental protection. "GATT rules will never block the adoption of environmental policies which have broad support in the world community. What they do constrain is attempts by one or a small number of countries to influence environmental policies abroad not by persuasion and negotiation but by unilateral reductions in access to markets". (Eglin R., 1993).

For Eglin (1993) the most worrying of the potential areas of trade friction is the issue of international competitiveness. "Pressure to internalize environmental costs is increasing, and the OECD countries have already endorsed the application nationally of the Polluter Pays Principle. This, however, will inevitably have an impact upon production costs in an economy". (Eglin P., 1993). One result may be pressure to make other countries harmonize up to one's own domestic environmental standards, so that production costs abroad also rise. A second reaction may be demands for higher import protection against foreign products considered to be benefiting from unfair competitive advantage because they are produced in "environmentally dirty" ways. They can also demand production and export subsidies to compensate for added costs of meeting higher domestic environmental standards (The World Bank, 1992). It is normal that environmental resources are valued differently around the world with resultant differing impacts on costs of production. Maintaining competitive market conditions has always been a major concern of the GATT. Sorting out the genuine cases of injurious dumping or subsidisation from spurious claims of uncompetitive producers has no simple solution. At the centre of finding trade and environmental solutions to this problem is the sensitive areas of domestic policy-making. The problems

emerging with regard to the linkages between trade and environmental policy-making, will be central to GATT's work on environment-related trade measures in the future (Eglin, 1993). Many countries do however voice concern that hidden within the subject of trade and environment are dangerous manifestations of trade protectionism linked to "standards" (Sutherland P., 1994). Differences in standards, be it national health, food, safety, and environmental standards, may be quite legitimate. They can reflect the fact that nations have different environmental endowments, or that populations have different levels of income and awareness and demand different levels of health and environmental quality. The differences may also be totally contrived. Governments may want different standards in order to use them as convenient cover for non-tariff barriers (MacNeill J., 1993). During a Pacific Economic Cooperation conference attended by the author during March 1994, it was also the concern of many delegates debating from the floor. The question of "standards" was raised and linked to the possibility that they can be misused as Sutherland and MacNeill have indicated. A recent and pending case (EC Food Law, July 1994) on hand is the German initiated environmental concern and packaging. Waste management and the procurement of suitable landfill sites triggered this initiative. The debate often generates more heat than light. Formal declarations call for international harmonization, and studiously avoid the real question. The question is whether we should direct our international bodies to harmonise upwards to higher standards, or downwards to lower standards. The answer to this question is not in the realm of science, but rather in that of politics. The answer is complicated by another question. "Are lowering environmental standards a product subsidy and, vice versa, are higher standards a burden on competitiveness? More specifically, will higher standards raise food prices and render farmers uncompetitive?" And also: "Will they encourage production and food processing to move to countries with lower standards?" A simple "yes" to these answers will not suffice. It is not accepted that high environmental standards will automatically lead to higher costs or that it is detrimental to a country's competitiveness. Enough proof exists to indicate the opposite. The OECD's International Conference on Environment and Economy in 1984 found that high environmental standards could have a strong positive effect on innovation and productivity (MacNeill J., 1993). According to Porter (1990) "the conflict between environmental pro-

tection and economic competitiveness is a false dichotomy. It stems from a narrow view of sources of prosperity and a static view of competition. Strict environmental standards ... trigger innovation and upgrading ... Nations with the most rigorous requirements often lead in exports of affected products".

## THE SOUTH AFRICAN LINK

An important link with the trade issues and the environment from a South African perspective, is the effect that production is having on our natural resources. To be more specific the quotation of Porter (1990) addresses the relevant issue. I repeat his words: "the conflict between environmental protection and economic competitiveness is a false dichotomy. It stems from a narrow view of sources of prosperity and a static view of competition. Strict environmental standards ..., trigger innovation and upgrading ... Nations with the most rigorous requirements often lead in exports of affected products". Few will disagree that South Africa has managed to achieve a high level of agricultural output and growth relative to available resources. In order to achieve this output virtually all available land is either under livestock or crops. This production was realised in 1992/93 at a calculated cost due to various forms of degradation of the natural agricultural resources of R672,6 million (McKenzie C.C., 1994). Sources in the Department of Agriculture double this figure, based on World Bank calculations, to R1,35 billion. This is not the total cost.

The cost to replace annual losses of N, P and K in South Africa caused by erosion is estimated at R900 million at 1994 prices (Du Plessis M.C.F., 1986; McKenzie C.C., 1994). The fertilizer industry benefits from this in the short run. McKenzie, basing his calculations on work done by Scotney and McPhee as well as The World Bank, concluded that in a period of 10 - 35 years maize productivity could be halved on soils experiencing the generally accepted rates of erosion in South Africa. The current rate of soil loss in South Africa has been estimated at more than 30 times the natural rate of soil formation in this country (Huntley B.S. & Sunter C., 1989). It is general knowledge that to a varying degree cash crops have been cultivated on marginal soils and soils not suited for such crops. (Ondersoek na die Impak, 1993). The effect of such tendencies on the economy and the competitiveness in export is clear. On the effects of acidification (2 million ha), salinisation and waterlogging (54 000 ha

seriously and 128 000 ha moderately affected), soil crusting and compaction (2 million ha), all manageable factors, I will not go into. On the non-arable lands we experience the same dismal picture: An increase in woody species as a result of mismanagement has rendered an estimated three million hectares of bushveld useless for domestic stock; an additional conservatively estimated 14 million hectares of savanna (it can be as high as 37 million hectares) are rapidly decreasing in stock carrying capacity on account of bush encroachment. We can go on stressing the effects of invasive plants that rendered nearly 1,9 million hectares economically useless (Huntley B.S. & Sunter C., 1989). Suffice it to say that using the work of Acocks as bench mark, the Karoo has already advanced to a point 60 years ahead of Acock's projections for the 1990s (Snyman H.A. & Van Rensburg W.L.J., 1987). In the Eastern Transvaal Highveld alone, 51 percent of the total surface area of 4,7 million hectares of high potential land is being detrimentally influenced through mine dumps, slime dams and open cast coal mines (Scotney D.M. & McPhee P.J., 1990). We trust that the companies involved will stay true to their word to reclaim this land. It will be easy to quantify the effects of unsound environmental practices of industry but I will refrain therefrom as it is the responsibility of another Department. Taking these intentions into account the link between trade and the environment is to a "certain extent" being approached in a positive way in South Africa. However, the link between trade, or our endeavours to be in a position to trade via productive processes, and the South African environment is a bleak negative.

## CONCLUSION

My goal today was to identify a few pertinent issues:

- The agendas and the actions of all in the agricultural community will have to change; strategies for the sustainable utilisation of our natural agricultural resources will have to replace price and aid lobbying strategies;
- In South Africa we are debating and in some instances resisting the tariffication process evolving from GATT, but we are losing sight of the realities that really matter if we want to be able to feed our nation and if we want to be and remain a global

players; at grass roots level we must define rigorous requirements for environmental standards to trigger innovation;

- Certain slogans must be changed; it must not be "he who tills the land must own it", but rather he who "conserves" the land must and should own it;
- If we in agriculture do not use our natural resources in a sustainable manner, people from outside agriculture and perhaps from outside the country, might prescribe to us how it must be done.
- It is the responsibility of all the role players in agriculture, that is amongst others the Departments of Agriculture on central and provincial levels, all organised agriculture, industry servicing farmers, universities and technicians, turn this ugly defacing manner in which we use our natural agricultural resources into the opposite, into a specific way of thinking, branding the misuser as a person without standing in our communities.
- The cost to repair our depleted natural agricultural resources will make South Africa a weak competitor internationally. To produce for the export market on constantly depleting natural resources is expensive and erodes our international competitiveness.

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