

1.1.1 Assessing the Environmental Effects of Trade

Project Summary

The CEC is unique among intergovernmental organizations in its mandate to examine, on an on-going basis, the environmental effects of a trade agreement. This project builds upon the extensive work undertaken over the first seven years of the CEC's existence to fulfill this mandate by furthering our understanding of the environmental effects of free trade and related market integration. The project, therefore, continues the work already undertaken in environmental assessments and reviews of free trade and consists of the following main elements:

- (a) Continue to further our understanding of the environmental effects of free trade and related market integration at the sector-specific level. Work will build upon this project's analysis of the effects of liberalization in the energy and agricultural sectors, as well as related institutional issues. In addition, the project could examine, depending on symposium results, two additional sectors such as the manufacturing and services sector that each represent approximately 15 percent of total trade in North America - which could also include the environmental effects of increased international transportation.
- (b) Combine more familiar environmental assessment methodologies and approaches to environmental assessments of free trade (i.e., that predict economic changes and infer environmental consequences from these economic changes subsequently) with new environmental assessment approaches. In this context, continue to test the feasibility of using an "environment-first" methodology (that is, one that develops scenarios for particular loci of interest, such as airsheds, watersheds, or an ecosystem, of the potential impacts of increased trade with local environmental experts and trade experts) as a relevant methodology to conduct environmental assessment. Examine how this approach could build upon work underway, data collected, and analyses completed in other CEC program areas, including work on: air quality or freshwater resources, the transfer and management of chemicals and toxic substances, on priority eco-regions in North America or on species of common concern using various geo-spatial analyses.
- (c) Facilitate an open, transparent dialogue to identify options for integration of trade and environment policies (using *ex post* environmental assessments of trade to guide *ex ante* analysis and mitigating policies). This work will build upon the technical workshops that took place in January 2002, as well as the lessons of the second North American Symposium to take place in 2003.
- (d) Based on the expertise developed during this project's seven years, coordinate the tenth anniversary review of environmental effects of NAFTA, in cooperation with JPAC, other program areas, research institutes, nongovernmental organizations, the private sector, civil society, and others.

The project combines two formerly distinct project areas: NAFTA Effects—which involves a backward-looking (*ex post*) approach to identifying the impacts of trade on environmental quality and policy—and Emerging Trends, which comprises a forward-looking (or *ex ante*) tool intended to highlight key environmental challenges to the years 2010 to 2020.

Goals and Objectives

The aim of the 2003–2005 work plan is to advance the understanding of linkages between environment, economy, and trade, with the longer-term goal of formulating the integration of trade and environmental policies in such a way that any significant environmental impacts of trade are identified, quantified if possible, and environmental policy responses enacted. Similarly, policy responses that identify positive environmental outcomes of free trade will be identified as potential best practices. Lessons learned in *ex post* analyses will be integrated into *ex ante* analysis to better inform policies and favor the harmonization of trade and environment and trade policies. Lessons from *ex post* analyses could be applied to future trade agreements such as the FTAA, the Doha round and other bilateral agreements that the three countries are undertaking. While progress has been made in recent years in methodologies and sector-specific analysis, there remains a gap between trade assessment work and the broader arena of environmental analysis and responses.

Specific objectives include: (1) refining assessment methodologies and approaches, including comparing the findings of *ex ante* and *ex post* environmental assessments; (2) improve the understanding of impacts at the sector-

specific level and identifying dynamic effects that occur between sectors; (3) continuing to identify opportunities for the integration of environmental and trade policies as a result of environmental assessments of trade; and (4) promoting a proactive approach to maximize the transparency of such assessments and mechanisms to ensure meaningful public participation of such assessments.

To achieve these goals, the project combines lessons of backward and forward-looking assessments of trade in specific sectors. In isolation, *ex post* analysis is more like an autopsy, while *ex ante* work has the goal of initiating anticipatory policies, albeit without a robust empirical base. By combining what is known from *ex post* analysis to help define and refine probable scenarios under *ex ante* work, improved policy analysis should result.

The “environment-first approach” also enhances policy relevancy of environmental assessments of free trade by engaging mainstream environmental experts working in for example air or water quality, hazardous wastes, protected areas, etc., with trade experts in the assessment work. This approach builds upon the preliminary work done by the CEC in using spatial analysis and GIS mapping techniques, to highlight environmental effects that are concentrated in specific geographic regions.

Expected Results

- High-level, biannual North American Symposium on Assessing the Environmental Impacts of Trade. The papers presented and discussed are selected by the Environmental Assessment of Trade Advisory Group from abstracts submitted to the Secretariat pursuant to a public call for papers. This invitation stipulates that authors of proposals apply the methods laid out in the Analytic Framework developed over the first five years of this project. A symposium will be held in March 2003 and the following symposium is expected to take place in the spring of 2005.
- Improved policy-relevancy of environmental assessment of trade through integrated backward and forward analysis of assessment work, data baselines and relevant indicators, combining traditional approaches to an “environment first” approach, and moving the discussions and policy attention from a polarized debate over the general environmental effects of the NAFTA and other trade liberalization agreements to a greater focus on specific areas of concern.
- Increased cooperation among experts in the three NAFTA countries leading to more comparability of data and approaches, thus facilitating a true environmental assessment of trade in North America.

Rationale

In 2000, total trade among the three NAFTA partners amounted to roughly US\$630 billion. In addition, cross-border investment flows have soared since 1994. As trade and investment flows have increased, so too has the exchange of technologies, management practices, and regulatory experience among Canada, Mexico, and the United States.

As market integration and economic globalization proceed, environmental policy continues to face new challenges as well as opportunities. Among the challenges for environmental policy makers is the need to ensure that standards, norms, and regulations are sufficiently robust to anticipate and mitigate new ecological stresses as the scale of overall economic activity expands. Experience suggests that these challenges include changes in the intensity and type of environmental problems related to trade expansion. Among the opportunities that arise from market integration is the ability to recognize and take advantage of the extent to which new technologies, environmental management practices, market-based approaches, consumer awareness and values themselves are shared among countries. This project will focus on improving the identification of policy options that arise as the relationships between environment, trade, and sector-specific areas are clarified. The rationale for this work is found in NAAEC Article 10(6)(d), which provides for the consideration on an ongoing basis of the environmental effects of NAFTA.

A guiding assumption of the project is that rigorous environmental assessments, based on extensive data and appropriate quantitative models and robust futures work provide a strong foundation upon which policy responses can be built. Accordingly, an important emphasis of the project is to provide policy-relevant environmental assessments. Analysis done through this project and others shows that, at the aggregate level, the environmental impacts of free trade are marginal. However, when disaggregated, analysis suggests a concentration of some environmental impacts in specific geographic regions, and the presence of peaks or troughs in key environmental indicators, justifying an approach to the analysis that is sectoral and environment-first.

The CEC has, and continues to, document the environmental impacts of increased trade, including NAFTA, on the agriculture and energy sectors, and depending on results of the second North American symposium, will initiate work in the manufacturing and/or services sectors—including increased transportation effects.

Progress to Date

This project, focusing on assessing the environmental effects of NAFTA, was initiated in 1995 and resulted in the final draft of the Analytic Framework, released by Council in 1999. Following a public call to submit proposals that would apply the methods of the Analytic Framework to a case study, fourteen original research papers were selected. These were presented at the CEC-sponsored first North American Symposium on Assessing the Environmental Effects of Trade in October 2000 in Washington, DC. The symposium proceedings were published in 2002, along with a short “lessons learned” report, which highlights key results of the research papers and the discussions and presents related analysis.

In late 2001, eight additional research papers and reports were released, covering a range of methodological and sector-specific issues. These included a comparison of backward and forward environmental assessments of trade; the relationship between trade liberalization and agro-biodiversity; the effects of trade liberalization on traditional maize varieties; and an overview of methodologies. Related work undertaken by the Secretariat in 2002 includes completion of the Article 13 Environment and Electricity report, which quantified possible changes in air pollution linked to market liberalization. Within the CEC Law and Policy program, an assessment was undertaken of environmental standards related to intensive livestock operations. A meeting of experts, research centers, NGOs, government representatives and intergovernmental organizations was held in Montreal in January 2002, and its proceedings highlight the lessons learned and next steps in this work on environmental assessments of trade. A short document summarizing lessons learned has also been published and is being used to promote the second North American Symposium on Trade and the Environment.

In June 2002, following the creation of an Advisory Group on Assessing the Environmental Effects of Trade, a second public call for papers was issued. Approximately 10 original research papers focusing on the agriculture and energy sectors were selected, and will be presented at the second North American Symposium on Assessing the Environmental Effects of Trade, to be held during a week-long event in Mexico city. The week will start with a JPAC session on Chapter 11, followed by the CEC symposium on agriculture and energy in collaboration with UNEP, March 25 and 26, and ending with a two-day UNEP workshop in collaboration with the CEC to transfer CEC knowledge about environmental assessments of trade, as well as of Mexico’s experience more particularly, to the other Latin American countries that are preparing for the FTAA.

Actions 2003

Activities in 2003 will focus on:

- (a) continuing the analysis of the environmental effects of free trade. Work in this area will draw upon lessons learned from both the backward and forward environmental assessments of trade liberalization accords and changes in trade flows. Analysis will continue to focus on sector-specific approaches, including further examination of the agriculture and energy sectors, as well as the manufacturing and services sector;
- (b) further developing an “environment-first” approach to environmental assessments, in which analysis engages mainstream environmental issues through the use of spatial analysis and references to core environmental indicators and baselines;
- (c) examining options arising from environmental assessment of trade related to the integration of environment and trade policies, or the development of new policies or policy-related institutional responses;
- (d) examining new ways to promote meaningful public participation in the trade-environment arena related to assessments; and
- (e) coordinating the ten-year review of the environmental effects of NAFTA, in cooperation with key partners.

The 2003 program will build upon policy recommendations of the second North American Symposium on Assessing the Environmental Effects of Trade, to be held in early 2003. Lessons from that public meeting, and the CEC’s work more generally, will provide guidance to, and be incorporated into the efforts of Council to undertake a 10-year review of the environmental effects of NAFTA.

North American Agenda for Action: 2003–2005
Environment, Economy and Trade

2003	Estimated Resources Required (C\$)
Action 1: Further our understanding of the environmental impacts of trade within and between economic sectors in North America	90,000
<ul style="list-style-type: none"> Activity 1: Building on the research papers presented at technical workshops and the second North American symposium, further the analysis of the environmental effects of trade liberalization in the agricultural and energy sectors, and undertake analysis in additional sectors depending on results of the second North American symposium, such as the manufacturing and services sector 	75,000
<ul style="list-style-type: none"> Activity 2: Identify common environmental data baselines that can be used to enhance the comparability of backward and forward environmental assessments of trade. Cooperate with agencies working on environmental indicators, including UNEP, OECD, and others 	15,000
Action 2: Continue to test an “environment-first” approach to environmental assessments of trade	95,000
<ul style="list-style-type: none"> Activity 1: Develop information tools to support this analysis using GIS and geo-spatial mapping tools that convey the environmental effects of trade-related environmental impacts (these resources could be used to support in-house capacity with other programs, or to hire consultants to do the analysis) 	25,000
<ul style="list-style-type: none"> Activity 2: Using shared (bilateral or trilateral) North American airsheds, watersheds, terrestrial or marine areas of common ecological concern, or trends in toxic releases and chemicals (e.g., data from the <i>Taking Stock</i>, NABCI, and SMOC initiatives) as a reference, and the information set and analysis they have accumulated, host 2-3 technical meetings with experts, NGOs, government representatives and others involved with the specific environmental media—such as air, water quality, biodiversity—on the effects of increased trade on these media and possible management and policy responses. 	70,000
Action 3: Organize a public meeting, in cooperation with JPAC and other stakeholders, to identify mitigating policies based on experts’ knowledge and <i>ex post</i> analyses to better harmonize trade and environmental policies	25,000
Action 4: Contribute to the 10-year assessment of the environmental effects of NAFTA	250,000
<ul style="list-style-type: none"> Activity 1: Develop, in collaboration with the three Finance Departments of the three Parties, an economic baseline of economy-wide and sector-level changes that can be attributed to NAFTA and to increased trade in general 	40,000
<ul style="list-style-type: none"> Activity 2: With the help of the an Advisory Group, compile analyses on NAFTA-related environmental effects, including: a compilation of CEC-studies; and appropriate studies undertaken by the Parties, international organizations such as UNEP and OECD, research centers, and non-governmental organizations 	120,000
<ul style="list-style-type: none"> Activity 3: Host public meeting(s) to seek public input on the scope of the analysis 	60,000
<ul style="list-style-type: none"> Activity 4: Prepare a 10-year NAFTA effects report 	30,000
Total Resources Required	460,000

Actions 2004–2005

Action: The project will continue to refine the methodology to assess the environmental impacts of trade, to foster the development of scientific evidence of the environmental impacts of trade, and to find innovative ways by which these results can be incorporated into policymaking, such as by conducting more meetings focused on the environmental theme and its links to trade. Further analysis of sectors already studied, and additional sectors will be continued since existing evidence is still scarce. The selection of what sector and areas to study will be guided by results of the CEC symposium, by the importance of these sectors in North American trade, by the size of the sector's potential impact on the environment, and areas of environmental concerns.

Public Participation

A guiding objective of the CEC's work in assessing the environmental effects of trade is to promote the highest level of transparency and meaningful participation of the public in environmental assessments and the identification of policy options arising from assessment work. Examples of efforts to include key stakeholders is the second public call for papers, issued in June 2002; the hosting of the second North American Symposium on Assessing the Environmental Effects of Trade, to be held in early 2003; as well as the posting of working papers for public comment, and the participation of NGOs and members of the public in various technical meetings and workshops. This fundamental commitment to public participation will continue in 2003, as the CEC prepares the 10-year review of the environmental effects of NAFTA.

Capacity Building

The project's work in capacity building helps to develop a broader understanding of trade and environment linkages. The transparent and open approach used by this project—by inviting all groups and individuals to present analyses that use the Analytical Framework to assess the environmental impacts of trade liberalization and trade—has helped to build capacity within groups of civil society in North America and has encouraged the creation of networks of researchers and groups charged with undertaking analyses of the environmental effects of trade.

Expected Partners and/or Participants

Partners to continue the work of understanding the environmental effects of economic policies will be actively sought out. These include the World Resources Institute, the Organisation for Economic Cooperation and Development (OECD), the World Trade Organization, the UN Commission for Sustainable Development, the UN Convention on Biodiversity Secretariat, the World Bank, research centers, NGOs, and others.

Linkages to other CEC Projects

Given the interdisciplinary nature of this project, activities will be closely coordinated with a number of other CEC projects and activities and will draw upon environmental data made available through them. These will include NABIN and others in the Conservation of Biodiversity program area, the three main areas of the Pollutants and Health program area, and Law and Policy.