

friend, not foe

by Pascal Lamy

Opening up trade can help us save some of the world's scarcest and most precious resources, by leading to their more efficient allocation. Indeed, the 2006 *Human Development Report* on the global water crisis from the United Nations Development Programme (UNDP) draws attention to one of the main contributions it can make to environmental protection. The report sheds light on the magnitude of the 'virtual trade in water' that takes place through trade in food. In 2000 this was estimated to be 1,340 billion cubic meters — three times its 1960 level — representing a quarter of the water required to grow food worldwide.

Virtual water trade is nothing other than an exercise in *comparative advantage*, allowing for a more efficient distribution of this vital resource on a global scale, and can induce water saving. If a country such as Egypt were to grow a volume of cereals equivalent to its national imports, it would use up a sixth of Lake Nasser, the Aswan Dam's reservoir! Trade allows countries that are rich in water to share it with drier lands, letting them conserve their precious and scarce supplies for essential use. Water, of course, is only one example of the natural resources that can be saved through trade — albeit an important one. So trade can be a friend, not a foe, of conservation.

UNDP tells us, however, that for the virtual water trade truly to be beneficial for the environment, countries must redress the perverse incentives that they sometimes create for overusing this resource. In many parts of the world, water pricing does not reflect its true cost; failing to internalize the negative environmental, social and other externalities that come with depletion or misuse. Can the World Trade Organization help rein in these mistaken incentives? Yes, in so far as they distort trade and are encompassed by its mandate. Some of the water subsidies mentioned in the report would indeed be reduced through the Doha Round of trade negotiations, which contains an important agricultural chapter. The WTO knows that one of the ways in which it can help the environment is by accelerating the removal of trade distortions that hurt natural resources. It is a vital complement to the role it plays in allocating these resources efficiently across the globe.

Other examples abound. Take the fisheries chapter of the Doha Round. There, too, members are trying to develop new rules to contain the harmful subsidies that some governments hand out, encouraging, as the saying goes, "too many fishermen to chase after too few fish". A multilateral agreement that disciplines these subsidies would allow the fish trade to 'save', rather than exacerbate, the plight of certain stocks, and would lead to a better allocation of fisheries resources world-wide.

Proponents of these new rules argue that the estimated \$14-20 billion of annual subsidies are depleting the world's fish stocks by inflating the size of the global fishing fleet, which now stands at some 24,400 large-decked ships and well over 2 million smaller commercial craft. The fleet's size —

combined with massive advances in fishing technology, particularly trawling — have caused alarm. In 1950, our fish catch amounted to 20 million tons: by 2003 it had soared to 81 million tons. But did our fish stock also grow? Sadly not. Instead, some of the world's oldest fish species are on the verge of extinction. Luckily, the WTO is not fighting this battle alone, since the problem is not limited to subsidies. The Food and Agriculture Organization, for instance, is also heavily involved, looking at different aspects of the problem.

In the Doha Round, countries decided to combine the positive role that opening up trade plays in efficiently allocating resources, with a set of negotiations specifically targeted at the environment — the first time environmental issues have ever featured in the context of a multilateral trade round. The negotiations include the relationship between WTO rules and multilateral environmental agreements. While there is no conflict between trade and environmental regimes — and the Appellate Body has repeatedly confirmed that the WTO can take other bodies of international law into account when interpreting its own rules — they nevertheless seek to ensure that these legal regimes operate harmoniously. They also encompass the issue of accelerating the opening of trade in goods and services that can help protect the environment or conserve natural resources — such as air filters, catalytic converters, windmills, or the environmental consultancy services that often accompany them.

Much international attention this year has been devoted to climate change. As Kofi Annan, the UN Secretary General recently noted, its impact will extend far beyond the environment to endanger the world's food security, even its peace and stability. Indeed, the recent *Human Development Report* pointed in the same direction, linking climate change to the growing water shortage facing the world and warning of a water crisis. The environmental negotiations that have been launched in the Doha Round can make a modest contribution to solving what is undoubtedly one of the most serious environmental problems that the world has ever known. First, they can reaffirm the need for a harmonious relationship between international trade and international environmental law; and, second, they can open markets for goods and services that can help prevent and combat climate change. It is an unfortunate reality that clean technology is not available in many parts of the world. By imposing restrictions on the entry of this technology, the world ends up penalising — rather than encouraging — pollution prevention and control.

Let me hasten to add, however, that I do not believe that the WTO — which is primarily a trade organization — can save the environment alone. By ensuring a better allocation of resources on a global scale — and by ensuring the transparency of trade measures adopted on environmental grounds — the WTO merely creates the premise from which environmental protection efforts must start. Trade must be accompanied by many other policies if its promises of welfare enhancement and sustainability to materialize. 