

TRADE, ENVIRONMENT AND DEVELOPMENT (Item 6):
Emerging Issues in the Trade, Environment and Development Debate
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The Economics of Climate Change: In October 2006, a thorough review on the economics of climate change - the Stern Review - was published. The Review estimates that if no action is taken, the overall costs and risks of climate change will be equivalent to losing at least 5 per cent of global GDP each year, now and forever. If a wider range of risks and impacts is taken into account, the estimates of damage could rise to 20 per cent of GDP or more. In contrast, the costs of action – reducing greenhouse gas emissions – can be limited to around 1 per cent of global GDP each year. Therefore the benefits of strong and early action far outweigh the economic costs of not acting.

Because climate change is a global problem, the Stern Review calls for an international response. It stresses that sound scientific analysis shows that impacts and risks will affect all countries, but it is the poorest countries located along the Equator that will suffer earliest and most, even though they have contributed least to the causes of climate change. The Review also points to the high correlation of climate change impacts and energy consumption and use, and reaches the conclusion that climate change problems are essentially an economic issue, rather than solely an environmental concern.

Developing countries are exempted from the emission limitation and reduction commitments applicable to developed countries and economies in transition because they are not responsible for inducing climate change. However, they have the commitment to formulate and implement programmes containing measures to mitigate climate change. They have indeed done so. Measures involving incremental costs are excluded unless transfers of finance and technology from developed countries cover them through the GEF or the Clean Development Mechanism (CDM). Unlike other MEAs, the Kyoto Protocol does not include trade-restrictive measures. But many of the actions that countries may take to implement the Protocol could have significant trade implications, such as the implementation of energy efficiency standards, energy taxes, subsidies, or the use of specific environmentally-sound technologies, eco-labels, and government procurement policies. The implementation of the Kyoto Protocol will create new markets for specific goods (e.g. energy-efficient goods and technologies) and services (e.g. services related to the trading of emissions rights).

Why biofuels? The sharp increase in the price of petroleum products, the finite nature of fossil fuels, growing environmental concerns, especially related to greenhouse gas emissions, and health and safety considerations are forcing the search for new energy sources and alternative ways to power the world's motor vehicles. Biofuels – fuels derived from biomass – may offer a promising alternative.

Positive economic, social and environmental objectives may be fulfilled by increased production, use and international trade of biofuels. Biofuels may slow down the process of global warming, and they may provide an opportunity for developing countries to diversify agriculture production, raise rural incomes and improve quality of life. They may enhance energy security and reduce expenditure on imported fossil energy. They may attract investments in developing countries through the CDM and they may accelerate technological innovation. Biofuels is considered a new and dynamic sector in world trade.

International Production and Trade of Bioethanol. Ethanol features today as a very dynamic commodity with production and international trade recording a strong growth. World production of ethanol increased from less than 20 billion litres in 2000 to over 40 billion litres in 2005. This represents around 3 per cent of global gasoline use. Production is forecasted to almost double again by 2010. Brazil is the world's largest ethanol producer, followed by the United States. China and India are distant third and fourth producers.

International trade in ethanol underwent a strong expansion, from very limited exports in 2000 led by the United States and the EU, to a dynamic market in 2004 largely dominated by Brazil. Brazil exports today around 2.5 billion litres of ethanol and has about 50 per cent market share of global ethanol exports, with India and the United States as main export markets. Other developing countries have benefited from the dynamism of the sector, including by taking advantage of existing preferential trade arrangements. South-South trade and transfer of technology are taking place. Conversely, there appears to be little international trade in ethanol feedstocks. Subsidies are likely to contribute to the expansion of domestically produced feedstocks in developed countries.

Development challenges: Burgeoning biofuel demand is raising some concerns. A major preoccupation is that rapid growth in demand for energy feedstocks could divert too much cropland to fuel crops and imperil food security. A related issue is the impact of rising prices of agricultural commodities, due to their use as energy feedstocks, on different segments of the population in developing countries. The increase in agricultural prices could potentially benefit 2.5 billion people whose livelihoods depend on the agricultural sector. However, small landholders, rural landless workers, women and the urban poor could be at significant risk, at least in the short term. Concerns also refer to the risk that increasing biofuels demand will lead to the cultivation of previously uncultivated land. This could include land with a high environmental value or high level of stored carbon. The conversion process - from energy crops to biofuels - may also be environmentally-unfriendly, if, for instance, refineries are powered by coal. The negative effects of such situations could possibly eclipse the greenhouse gas benefits of biofuels. The actual opportunities for small and local farmers to get involved in this new dynamic sector and benefit from it may be questionable if appropriate mechanisms are not put in place. Finally, sustainable production of feedstocks and biofuels is becoming a key concern and is currently being considered as a possible requirement for market access.

Biofuels and feedstock certification remains, however, a complex issue. Unnecessary trade barriers could be avoided by a fair criteria-development process characterized by widespread participation, transparency and consideration of certification capacity-building in developing countries. The achievement of the sustainable development goals embedded in the biofuels option will very much depend on how domestic biofuels strategies are put in place, on how organized and predictable the international market is, and on how fair the playing field will be for producers competing for market shares.

UNCTAD's role: *The BioTrade Initiative's* specific objectives are to:

1. Assist developing countries in the formulation and implementation of National BioTrade Programmes;
2. Assist Inter-Governmental Organizations in the formulation and implementation of Regional BioTrade Programmes;
3. Provide inputs to international policy making processes related to trade and biodiversity;

4. Carry out technical assistance on issues related to trade, particularly exports, and investment related to biotrade.

From 2008 onwards UNCTAD will put increased emphasis on the objective 2 and 3.

The MEA Working Group: Its objective is to provide a platform for discussion and exchange of experiences of biodiversity-related MEAs on issues related to engaging private sector, incentive measures and international trade. Participants to the working groups include, among others, Convention on Biological Diversity (CBD), Convention on International Trade in Endangered Species (CITES), Ramsar – Convention on wetlands, UNEP, Global Mechanism / UNCCD, etc.

Most important CBD decisions in last CBD COP that call upon UNCTAD BioTrade:
Decision VII/7: private engagement (1st ever decision of the CBD COP on private sector)
Decision VIII/3: agricultural biodiversity
Decision VIII/26: Incentive measures

Novel Food Regulation (NFR): Developing countries (particularly Andean countries), placed the NFR on the agenda of the SPS committee of WTO. The EC has been responding their concerns. NFR is being revised and EC stressed in the SPS Committee that developing country concerns would be taken into account in the revised version of the Regulation.

New challenges: The 1st phase of the BTFP (BioTrade Facilitation Programme) is coming to an end. The 2nd phase is being structured right now. Additional partners will join the BTFP. UNCTAD will focus on its comparative advantage: Policy analysis, dialogue, capacity building for policy makers and BioTrade Impact Assessment. UNCTAD has traditionally been involved in Latin America and to a lesser extent in Africa and Asia. In the design of new programmes special emphasis will be given to African and Asian LDCs. Private sector involvement in BioTrade activities is increasing, in part thanks to the efforts of UNCTAD BTFP. Many initiatives are facing barriers at the policy level. UNCTAD will pay increased attention to capacity-building of policy makers.

UNCTAD BioTrade Initiative is working on an impact system to show the results of BioTrade on sustainable development and the MDGs.

Agro-biotechnology and international trade is another challenging area. The debate on agro-biotechnology continues to be one of the most vocal and passionate that has been taking place in recent years. Assessments of the risks and benefits related to agro-biotechnology vary substantially between countries and regions, as do regulatory approaches. These different approaches have made the whole issue prone to dispute.

Indeed, the EC–Biotech case can be regarded as the "tip of the iceberg" of a long-standing divergence of views and interests on agro-biotechnology. As the first interpretation of how WTO provisions apply in the context of biotechnology and biosafety, the WTO Panel report on the EC–Biotech case, in addition to addressing a specific set of facts and assessing them, will likely have an impact on ongoing regulatory and policy discussions on trade, biotechnology and sustainable development, at both the national and international levels. The case was examined by the Panel at the very moment when developing countries were struggling to develop a mutual supportive relationship between their trade, food safety, and environmental rules and policy.