

# ENVIRONMENTAL GOODS AND SERVICES IN LATIN AMERICA AND THE CARIBBEAN



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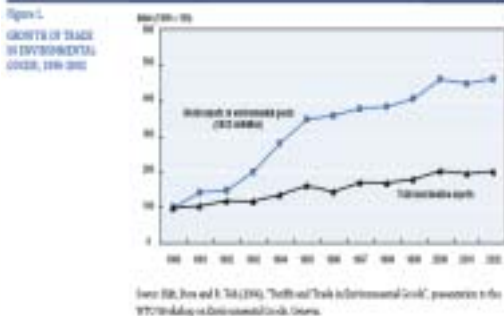
*High Level Meeting on Fostering a Mutually-supportive Trade and Environment Regime: Perspectives and Lessons Learned at Regional Level*

Geneva, 20 November, 2007

## OUTLINE

- Favorable global context for EGS industry
- Importance of EGS market for LAC
- Is there a role for SMEs?
- Results in four countries
- Policy suggestions

## Global context: GROWTH IN WORLD TRADE



OECD definition: "Goods and services used to measure, prevent, minimize or correct environmental damage"

## Global Context: New developments are fostering the growth of the market for EGS

- Globalization, trade agreements and economic integration are processes that increasingly incorporate environmental concerns (cooperation, requirements, enforcement, etc)
- The outcomes of several intergovernmental conferences are relevant to the EGS market growth:

**MDG:** the need to ensure environmental sustainability

**Doha Round:** the liberalization of the EGS

**WSSD, Johannesburg:** the quantification of targets for basic sanitation, efficient use of water, clean air, etc.

**Kyoto Protocol:** emission reduction will increase investments for the reduction or compensation of carbon emissions, and increases demand for environmental goods and services, including renewable energies.

## Relevant facts for EGS demand

- Demand is closely linked to adoption of environmental norms and standards worldwide
- For LAC: net importers, worsening of environmental problems, increasing environmental requirements
  - Specialization in environmentally sensitive exports, implies more investments in services, technology and equipments for pollution abatement and control
- For developed countries: interest in promoting markets, a very dynamic sector, mature industry and demand slowing down in OECD countries (10-15% to 2-3%)
  - Environmental Cooperation Agreements in FTAs
  - Immediate negotiations on of EGS in Doha Round
  - OECD: Environmental Performance Evaluations (Chile and Mexico)
  - ISO14000: pressure on private environmental performance

## Latin America and the Caribbean objectives in EGS

- Need to find a **clear economic benefit** to ensure relevant policy action in the environmental area and EGS: this will move governments, markets, the financial and private sectors
- **Strengthening the link between environmental and economic performance**
  - Annual growth projections of the LAC market for EGS (12-13%) generates economic opportunities for economic agents.
  - Solve important shortcomings in environmental infrastructure
  - Increasing enforcement of regulatory framework expands market
  - Perception of the environment as a source of improved productivity and competitiveness is growing
  - Attract investments and modern technologies into EGS market
  - Develop national supply of EGS and promote linkages with FDI

## Awareness of the link between EGS markets and development

ENV/GNP = indicator of the importance a country assigns to the solution of environmental problems

Relation ENV/GNP high		Relation ENV/GNP low	
Sweden	3.29	Chile	0.86
USA	2.78	Brazil	0.68
Germany	2.60	Mexico	0.67
Holland	2.57	Argentina	0.63
Canada	2.01	Colombia	0.59
France	1.87	Venezuela	0.52

## Is there a role for SMEs in EGS markets? WHY SMEs?

- SMEs are a very relevant economic and social reality in LAC
  - generates more than 50% of employment in the region, and crucial for building the social network and social inclusion
  - important contribution to production
  - cannot be ignored by public policy, negative impacts on SMEs are reflected as negative impacts for the whole economy
  - SMEs face increasing social, community and regulatory pressures on environmental performance
- SMEs are the most vulnerable economic agents with regard to environmental requirements
  - Enforcement by governments has not been successful
  - Lack of knowledge, technical capacity and access to finance
  - Little access to information and new rules of the game

## Study on opportunities for SMEs in EGS markets in 4 LAC countries

### 3 steps

- Characterize the main environmental problems faced by SMEs in selected environmentally sensitive sectors that also concentrate the largest number of SMEs
- Assess the situation of SMEs as providers of EGS needs in the countries at national and local level, and opportunities to develop the EGS supply potential and export prospects
- Suggest policy tools and strategies for promoting the demand and supply of EGS, with greater involvement of SMEs and strengthening the link between environmental performance and economic benefits

## ARGENTINA, CHILE, COLOMBIA, MEXICO: Main results

### DEMAND

- High concentration of SMEs in five sectors, with greatest environmental shortcomings and infrastructure, and with the highest needs (potential demand) for EGS
- they are the same five sectors in the four countries:
  1. production of food and beverages
  2. textiles and clothing (dyeing, detergents)
  3. leather (toxic and metals disposals)
  4. metal-mechanics
  5. paper, printing and editing
- specific additional sectors concentrating SMEs
  - production of bricks (in Mexico)
  - Industrial chemical substances, ceramics (Colombia)

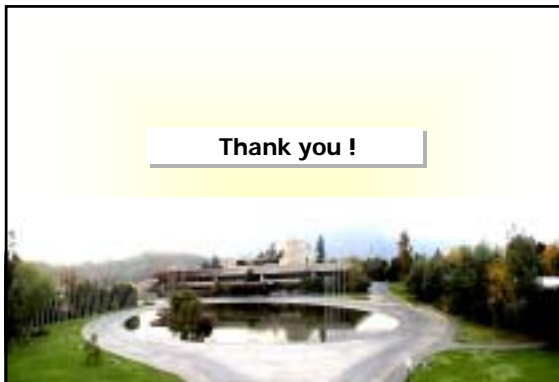
### SUPPLY

a great potential for SMEs as providers of public services linked to local environmental management, also potential in other EGS.

## POLICY CHALLENGES

- Involving SMEs in the development of EGS markets should be seen as a strategic mechanism for ensuring sustainable development conditions in LAC countries
- Trade negotiations take little or no consideration for the interests of SMEs, and issues like EGS liberalization, public procurement or performance requirements should become more inclusive of SMEs
- The existence of supply and demand does not imply the a market. Failures need to be addressed through information, know how and capacity building of SMEs
- Policy making for SMEs and not against them: enforcement is costly and threatens their survival (growth of in formal sector is a problem in the region..)
- Environmental issues in relation to SMEs should be addressed jointly with economic and labor issues. These are inseparable.

Thank you !



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