The WTO’s Environmental Mandate

By Jason Scorse, Ph.D.

The Environmental Defense Fund (EDF), the Natural Resources Defense Council (NRDC), and The Nature Conservancy (TNC) are influential mainstream environmental organizations with millions of members.¹ All three have a commitment to sound economic policy, and recognize the role that economic incentives play in shaping environmental outcomes.

Yet on all of their websites and materials, there is no mention of the most influential international economic body— The World Trade Organization (WTO)—whose policies are extremely consequential for the environment.

The Sierra Club and Greenpeace, two other major environmental organizations with millions of members,² but with a more anti-corporate and anti-market orientation, do have official positions on the WTO. On their websites, these groups are highly critical of the WTO, citing its supposed anti-environmental record and claiming that it puts corporate interests over the public good.³

To date, no major environmental organization has come out in support of the WTO or even recognized its potential for promoting a new environmental agenda. This needs to change.

While there are many legitimate reasons to be critical of the WTO (including the reasoning it has used in some of the more prominent trade disputes involving environmental policy⁴), the reality is that the WTO’s potential to benefit the environment greatly outweighs its flaws. In fact, a strong WTO that lived up to its mandate could be perhaps the world’s greatest environmental ally.

The reason is simple: the WTO (through the General Agreement on Tariffs and Trade—GATT) is charged with reducing global trade barriers, including the subsidies that distort world prices. These subsidies are nowhere greater than in natural resource industries. Governments use these

¹ According to their respective websites, NRDC boasts over 1.3 million members and TNC >1 million members. EDF has over 700,000 members according to a spokesperson from member services.
² According to their respective websites, the Sierra Club has 1.3 million members, while Greenpeace has 250,000 U.S. members and 2.8 million members worldwide.
⁴ For example, in the famous tuna-dolphin case the WTO ruled against the U.S. for restricting the importation of tuna from Mexico based on dolphin mortality rates that exceeded U.S. standards under the Marine Mammal Protection Act (MMPA). The main interpretation of the ruling is that countries cannot impose their environmental standards on other countries, even though Article XX of the GATT does allow for general exceptions if the country in question is acting to “protect animal life”. It is likely that the fact that dolphins weren’t an endangered or threatened species influenced the ruling, and that if dolphins were endangered the WTO might have ruled differently, allowing the invocation of Article XX. This is problematic since countries should be able to preemptively protect species, and not have to wait until they’re endangered to use trade sanctions as a means to promote conservation, as long as the trade bans are applied uniformly.
subsidies to promote the economic welfare of special interest groups (i.e. agribusiness, coal and oil companies, or large fishing fleets) and to (inefficiently) decrease the prices for food and other important commodities for the general population.\(^5\)

By promoting the over-exploitation of natural resources and artificially lowering commodity, water, and energy prices, governments around the world, in both developed and developing countries are inadvertently causing massive environmental degradation. For example, agricultural production subsidies in the U.S. lead to the over-production of grains in the Midwest, thereby exacerbating the “dead zone” in the Gulf of Mexico caused by excessive nitrogen fertilization;\(^6\) global fisheries subsidies are hastening the destruction of many endangered fish species and harming many marine mammals and turtles; fossil fuel subsidies in dozens of countries greatly increase greenhouse gas emissions and make it much more difficult for alternative energy to compete in the market. These are but a few of hundreds of examples worldwide.

These types of natural resource subsidies are often referred to as “perverse subsidies”, because they promote activities with significant negative externalities; i.e. encouraging people to pollute and degrade the environment. Virtually all of the natural resource subsidies for fossil fuels, water, forestry, agriculture, mining, and fishing fall into this category. While measuring perverse subsidies precisely is extremely difficult, estimates range in the hundreds of billions to trillions of dollars a year.\(^7\) A new OCED report puts a price tag of over $550 billion annually on global fossil fuel subsidies alone.\(^8\)

These are tremendous financial transfers with huge global environmental impacts.

If governments continue to subsidize environmental degradation and dependence on fossil fuel to this degree every year, most environmental efforts, no matter how well-intentioned, will be akin to using a cup to bail out a sinking ship. Attacking these perverse subsidies and eliminating them should be the top priority for the environmental community; they are at the root of most environmental problems.

With the recent collapse of climate change policy in the U.S., the hopes for a truly international post-Kyoto regime have greatly diminished; this at a time when scientists warn of the ever greater dangers of global warming, and the window for reversing these alarming trends continues to shrink.

\(^5\) Natural resource subsidies are an extremely inefficient means of promoting social policy because lower food, water, or energy prices benefit the rich even more than the poor, whose consumption of these resources is much greater. Directly subsidizing the poor and allowing prices to reflect their true costs is much more efficient.

\(^6\) See the report by the Environmental Working Group: http://www.ewg.org/reports/deadzone.

\(^7\) See: Kent, Jennifer and Norman Myers. (2001). Perverse Subsidies: How Tax Dollars Can Undercut the Environment and the Economy. Island Press, Washington D.C. (Norman Myers has been sounding the alarm on perverse subsidies for decades.)

This is why a reinvigorating the Doha Round of the WTO and making a push for major subsidy reductions for fossil fuels, as well as across a swath of other natural resource industries, is absolutely critical.

We know what we need to do to mitigate climate change; we have for decades. The challenge is not one primarily of technology (although new technologies will need to be invented and widely adopted) nor is it one of workable policy options. In fact, the best way to address climate change would be through one of the simplest measures imaginable: an annually escalating greenhouse gas tax on all sources of emissions.

But what is simplest turns out to be the least feasible because the barriers to addressing climate change are almost entirely political. The special interests that stand to lose as fossil fuel becomes increasingly expensive (and ultimately phased out) are extremely adept at sowing public confusion, corrupting politicians, and issuing dire warnings of impending economic collapse if policies are enacted to address climate change.

The international institution that is best positioned to take on these special interests is the WTO.

The WTO’s explicit mandate is to eliminate all forms of trade-distorting subsidies, which includes the various types of perverse natural resource subsidies. The problem with the WTO is not that it caters to corporate interests, but that it has not yet lived up to its promise because it can only be as consistent as its individual member states.

Before the collapse of the Doha Round in 2006, the proposal called for the elimination of all agricultural export subsidies by 2013 and cuts of 50%-75% in the most trade-distorting—and hence harmful to developing country farmers—agricultural production subsidies in the EU, U.S., and Japan. The developed countries were willing to make these commitments because of the prospect of greater market access in the developing world. While many developing countries, notably India and China, concluded that the promised subsidy reductions were insufficient to warrant greatly reducing their agricultural tariffs—and thus exposing their farmers to greater international competition—the agreement marked the greatest multilateral cuts to agricultural subsidies that had ever been proposed.

With the world food price index having risen by more than 30% since 2006, the need for domestic agricultural subsidies has decreased. There is now the potential for greater reductions from OECD nations, who desperately want to take advantage of rising consumer demand in emerging markets as domestic demand remains anemic. (As a side note, New Zealand is the first OECD country to unilaterally eliminate its agricultural subsidies, and agriculture remains New Zealand major export industry.)

---

9 For a fascinating look at how the oil and gas companies opposed to climate legislation vastly outspent environmental groups see: http://www.opensecrets.org/news/2010/08/pro-environment-groups-were-outmatch.html.


In addition to progress on agricultural subsidies during the Doha Round negotiations, progress was also made on an agreement to address global fisheries subsidies (which is wreaking havoc on the marine environment by promoting over-fishing, often by foreign fleets at the expense of local fishermen). WTO working groups have agreed on the basic structure for defining the types of fishing subsidies that would be banned, along with exemptions for least-developed-countries (LDCs), and new efforts at the global monitoring of fish stocks.\(^\text{12}\)

With the Obama Administration committed to revitalizing the Doha Round, it is imperative that environmental groups insist that all forms of perverse subsidies be added to the negotiations, especially for fossil fuels.

Some may counter that if individual nations have found it politically impossible to remove these forms of subsidies,\(^\text{13}\) why would we expect the multilateral community to fare any better?

One of the main reasons it is difficult for an individual nation to take on its entrenched interests is because if these special breaks are taken away, opponents can argue that this will put the affected industry at a competitive disadvantage with respect to countries that maintain government financial support. There is a strong aversion to being a first-mover in any global effort to reduce perverse subsidies.

A similar line of reasoning has been used repeatedly by opponents of U.S climate change legislation; they contend that if the U.S. joins an international climate regime that is absent China and India, this will accelerate the offshoring of U.S. manufacturing. This is why the WTO framework is so crucial: all of the WTO member states, which include all of the world’s major economies, must act together.\(^\text{14}\)

While a WTO agreement that addressed a broad range of perverse subsidies (with a focus on fossil fuel subsidies) would not be equivalent to an international price on greenhouse gases, it would have largely the same result. If all countries agreed to unwind their fossil fuel subsidies together at a measured pace, this would both decrease the supply and demand of fossil fuels and make a host of alternative energies more competitive, and boost conservation and efficiency efforts.

By getting all nations to agree to coordinated action, no country would be able to gain an unfair advantage; any individual members who flaunted the rules would face the very real possibility of retaliatory action (and the WTO is one of the only international bodies with serious enforcement powers to back up its agreements, through targeted trade sanctions).

\(^\text{12}\) For details on the WTO fisheries negotiations see: http://www.unep.ch/etb/events/WTO%20FS%20workshop%202012%20Apr%202009/Meeting%20Report%20UNEP-WWF%20Briefing%201April09.pdf.

\(^\text{13}\) Efforts to remove fossil fuel subsidies after the Deep Water Horizon Spill were introduced by Senator Bernie Sanders of Vermont, but the proposal failed largely because of Republican opposition. See: http://climateprogress.org/2010/07/06/turn-off-the-oil-subsidy-spiogot/.

\(^\text{14}\) While some of the least-developed countries (LDCs) are typically granted exemptions to WTO mandates to give their economies time to adjust, these economies are small and rarely compete with U.S. industry (or most industry across the OECD).
While it is true that there has yet to be a multilateral effort aimed at reducing energy subsidies, the existing WTO framework has provisions with which to address the issue.\textsuperscript{15} And in September, 2009 leaders of G-20 countries, urged by President Obama, agreed to begin phasing out fossil fuel subsidies in the “medium” term.\textsuperscript{16,17}

If continued progress can be made on agricultural and fisheries subsidies,\textsuperscript{18} this could generate the momentum necessary to expand into energy issues, especially with climate change front and center on the international agenda. Many countries of the most important emerging economies, including India, China, and Brazil, have already made serious commitments to the development of alternative energy, and in fact, have eclipsed the U.S. on many measures of alternative energy investment.\textsuperscript{19} Even the rhetoric coming from the leadership in Russia, which has not been enthusiastic about a new climate change regime, has changed after the terrible wildfires decimated the country in the summer of 2010 (which many believe are linked to global warming).\textsuperscript{20}

Focusing on the elimination of perverse subsidies has the added benefit of freeing up tremendous amounts of financial resources. At the COP-15 meetings in December, 2009 an annual $100 billion fund was proposed to fund climate mitigation and adaptation projects in the developing countries. Given the global financial crisis, and the precarious fiscal situation among most of the OECD countries, it is open question where the money is going to come from. Ending perverse subsidies would make available hundreds of billions of dollars, some of which could be directed to these efforts. Future agreements could specifically direct reductions in subsidy payments for fossil fuels, agriculture, or fisheries into a global climate change fund.

When environmentalists speak of the need for paradigm shifts in the goods we produce and consume, there is no better mechanism that could serve as a catalyst for this transformation than removing the huge distortions in current market prices for energy and natural resources. Virtually everywhere across the world, where there is excessive waste and resource inefficiency, perverse subsidies loom in the background as a key driver.

Many environmentalists argue that the structural biases against investments in alternative energy justify subsidies for solar, wind, geothermal, certain biofuels, and other less greenhouse gas-intensive energy sources. While these “green” subsidies promote cleaner alternatives, and are responsible for the rapid growth in renewable energy in many parts of the country, they carry a hidden cost as well.

\textsuperscript{15} This article on the WTO website explains how existing WTO frameworks could be used to address energy issues.
\textsuperscript{16} See: http://www.reuters.com/article/idUSTRE58O18U20090926
\textsuperscript{17} The International Institute for Sustainable Development (IISD) put out a report in June, 2010 entitled, “Increasing the Momentum for Fossil-Fuel Subsidy Reform: A roadmap for international cooperation” that examines the role the WTO (and other international organizations) can play in hastening the process. The report can be found at: http://www.iisd.org/publications/pub.aspx?id=1296. The IISD is also convening a conference on the same topic.
\textsuperscript{18} See: http://www.nytimes.com/2007/05/01/world/americas/01iht-usfish.4.5521465.html.
\textsuperscript{19} See the following article on how Chinese investment in green technology has greatly surpassed the U.S.: http://www.foreignpolicydigest.org/Asia-Pacific/September-2010/china-green-tech.html.
\textsuperscript{20} This article describes how Russian authorities have come around on climate change: http://www.csmonitor.com/World/Europe/2010/0809/Russian-fires-prompt-Kremlin-to-abruptly-embrace-climate-change.
By promoting particular technologies, the government creates new biases against nascent technologies that have yet to make it to the commercial phase. It is likely that the optimum energy mix from an environmental standpoint in 2050 or 2100 will include many technologies that have yet to be invented or commercialized, and the last thing we want is for the government to discourage risk-taking and lock in certain technologies too early, even ones that on most dimensions are superior to the status quo.

If we were able to radically reduce or eliminate perverse subsidies, the need for green subsidies would diminish, as all alternative forms of energy will be able to compete on a level playing-field with their fossil-fuel counterparts. At this point it would be best for governments to fully shift to investing in basic R&D that is valuable across many types of technologies, and could lead to the widest possible spectrum of outcomes; these also happen to be the type of subsidies that are most consistent with WTO rules. This is why ultimately all technology-specific subsidies should be phased out.

Getting the Doha Round of the WTO started again, or an entirely new round initiated, will be difficult, but it is not impossible. The trade barriers that still remain across a wide variety of industries result in huge inefficiencies and hundreds of billions of dollars in lost global economic output. This alone merits new efforts to restart global trade talks. Add to this the looming potential of catastrophic climate change, and the huge economic transfers that are going to be required to make the transition to a carbon-free world, and the need is even greater for trade talks that include an emphasis on freeing up the hundreds of billions of dollars in perverse natural resource subsidies that contribute to the problem.

It is time for the environmental community to fully engage on this issue and make it a priority. Efforts must be undertaken to get these issues on the collective radar and generate the necessary political will to take on the entrenched interests that have so far blocked progress. This won’t require starting from scratch, but instead building on the work that has already been done with respect to agricultural subsidies, and the nascent negotiations over fisheries subsidies. With the G-20 already committed to reductions in fossil fuel subsidies, creating a comprehensive platform that tackles all perverse subsidies, which ultimately is part of the WTO mandate, is the next logical step.

This will require:

1. Calling for the resumption of WTO talks with a new emphasis on environmental issues to complement the development focus—given the latest round of international climate change talks this could be a natural selling point to merge the two issues on the international stage (and should be the ultimate goal)

---

21 The case for a greenhouse gas tax would still exist in order to internalize the costs of pollution (and make alternatives form of energy even more attractive), but at least from a basic financial standpoint alternatives would finally be able to compete against fossil fuels based on unsubsidized prices.
2. Devoting staff to regularly document and measure perverse subsidies (much of the data is outdated and the methodology needs both clarification and an accepted set of norms that all parties agree to)

3. Keeping membership regularly abreast of the issue through newsletters and email communiqués (people need to be educated about how perverse subsidies contribute to so many global environmental problems)

4. Devoting significant website presence to perverse subsidies (put the issue front and center in the medium that matters most)

5. Educating politicians and their staff about the issue so that they are armed with the relevant statistics and understand the environmental impacts (many organizations regularly brief politicians on a host of issues and perverse subsidies need to be near the top, including for trade representatives)

6. Lobbying hard for the elimination of perverse subsidies at every level—state, national, and international (just as New Zealand unilaterally declared an end to its agricultural subsidies, municipalities and individual states can take the lead on the issue, freeing up resources for tax cuts or investments in green technology, education, health care, infrastructure, or deficit reduction)

Last, but perhaps most important, instead of focusing almost exclusively on the need for greater environmental regulation (which is critically important), the environmental community needs to also call for an end to handouts to special interests that distort market prices, discourage efficiency and innovation, and exacerbate environmental degradation.

The environmental community should position itself as a champion of a truly global free-market system, in which industries and technologies compete on a level playing-field, in contrast to the crony capitalism that reigns supreme today.

Well-functioning markets are the goal of the “liberalized global trading system” at the heart of the WTO charter. If environmentalists can help make this a reality they will have not only vastly improved the chances to pass on a livable world to future generations, but helped the WTO to finally live up to its mandate.