

Australia, APEC, and the Environment Sept. '97

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Australian Conservation Foundation

Submission to the

Senate Foreign Affairs, Defence and Trade References Committee

Australia, APEC, and the environment

Global and regional agreements about economic integration and trade are having a growing impact on the environment, national decision making and consequently on environment organisations, like the ACF, working to influence decisions on the national level.

Environmental non-government organisations support the notion of internationalism and regional cooperation. The movement sold a message to the world, about the global nature of the environment, that pollution and degradation do not respect national boundaries.

The environment movement also values and promotes the use of international structures and agreements to advance the agenda for environmental protection in the national and global interest.

prepared by

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ATTACHMENTS

1. **'Trade and the Environment', from von Weizsacker E, Lovins AB, & Lovins LH (1997) *Factor Four: doubling wealth - halving resource use: the new report to the Club of Rome*, Allen & Unwin: Australia, pp.278-291**
1. **'APEC - fast track or log jam?', from Habitat vol.25 no.1, February 1997, p.13-14**
1. **Ecology and Environment Statement, Manila People's Forum on APEC, November 1996**

Introduction

A fundamental objective of regional and global trade liberalisation must be to ensure that the basic needs of all nations are met. Sustainable development is an abstract concept if the bare necessities for survival are not available to all human communities. Countries in which the world's richest 20 percent live, however, have already enjoyed economic growth 2.7 times that of the poorest 20 percent.

Therefore, the questions that must be asked about trade liberalisation and investment facilitation are: for what objective?, and for whose benefit?

A standard theory about the changing comparative advantages of nations in a global capitalist economy can be stated in the following way:

"When a developing country opens up to international trade, its exports initially will be specialised in primary products. This is because its stocks of man-made capital relative to natural resources are comparatively low.

Should those non-natural capital stocks per worker (including human skills) expand more for this country than globally, the country's comparative advantage will gradually shift from the extraction of raw materials (minerals, timber from natural forests) to more capital- and skill-intensive activities (particularly manufactures and services) - except in relatively land abundant countries where produced capital and new capital-intensive technologies may continue to be employed profitably to extract minerals or farm the land."

Natural resource-rich countries also tend to be economically poor countries, partly because the wealthier, industrialised countries have earlier depleted their natural resources. 25 percent of the world's population (in the wealthy industrialised countries) receives 85 percent of the timber, 83 percent of the income, 75 percent of the metals, 70 percent of the energy, and 60 percent of the food.

An imperative of global and regional trade must be to cut over-consumption and the over-generation of waste in the 'over-developed' countries, in both per capita and absolute terms, and to ensure that the distribution of economic benefits is equitably received by 'under-developed' countries through sustainable production patterns for import and export.

"Rapid growth, fuelled largely by foreign investment and trade openness, has made East Asia the economic success story of the world. Economic success, however, has come at the expense of severe and rising ecological degradation, including the pollution of water and air systems, rapid depletion of resources such as forests, wetlands and fisheries, and loss of flora and fauna. Ecological degradation will impose large financial costs in Asia-Pacific and globally. Moreover, some losses in ecosystem goods and services will be irreversible."

"The costs of environmentally unconstrained, export-oriented economic growth are not limited to the

rapidly industrialising and developing countries of APEC. In Canada, unsustainable management, including inappropriate pricing, undermines forest sustainability. In California, water subsidies promote water-intensive crops such as rice in arid areas, with negative impacts on water salinity, soil micro-organisms, and flora and fauna. In Australia, farming and grazing practices in some states generate soil erosion and decline of water tables."

The countries of the Asian-Pacific region are at different points along the economic and ecological trajectory of 'comparative advantages'. Economic performance and growth is affected by the ability of ecosystems to tolerate the stress of resource extraction rates, and the capacity of ecosystems to assimilate the residues and emissions of industrial processes - and, therefore, the nature of development that can be achieved. Indicators of environmental status in the region include:

- 20 percent of the region's population lacks access to clean water, and less than 30 percent have access to sanitation services
- land degradation due to agricultural conversion, erosion and soil depletion is the world's highest
- 70 percent of Chile's fishery resources are over-exploited, affecting 80 percent of the biomass
- from 1985 to 1994 in Chile, use of insecticides increased by 64%, weed killers by 221%, and phytoregulators by 81%
- 75 percent of agricultural soil in Chile, or 45 percent of the country's area, is subject to erosion
- from 1985 to 1994, 400,000 to 900,000 hectares of Chile's native forests were lost
- in 1990, 98 percent of the 300 to 400 million tonnes of hazardous waste generated world-wide came from the 24 member states of the OECD
- between 1990 and 1993, more than 5.3 million tonnes of toxic waste were shipped from wealthy countries (such as US, Canada, Japan, Finland, Australia, and Germany) to Asian countries (such as Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Pakistan, the Philippines, Sri Lanka, Taiwan, and Thailand)
- from 1991 to 1996, the Philippines imported almost 2 tonnes of toxic lead acid battery waste every hour
- from January 1994 to May 1996, Australia exported 11 tonnes of lead acid batteries to the Philippines every day, producing lead contamination levels in the Philippine processing company's effluent that exceeded allowable Australian levels by 1900 times
- natural forest cover in the Philippines decreased from 34 percent of the total land area in 1972 to 20.5 percent in 1990
- the Philippines has lost 78 percent of its inland and coastal wetlands and mangroves, and the area of mangrove forests was halved between 1970 and 1988
- nearly 50 percent of the total agricultural land of the Philippines (or 5.2 million hectares) is subject to moderate or severe erosion
- deforestation rates of tropical timber are the world's highest, with predictions that at the current rate of harvesting, timber reserves in Asia will not last more than 40 years
- countries in Asia and Oceania lost more than three percent of their total natural forest cover from 1991 to 1995
- in Indonesia, logging accounts directly for approximately 40 percent of deforestation (when defined by the loss of ecosystem functions, not by the percentage of trees), with another 10 percent lost to fires from destructive logging practices

- in Papua New Guinea, logging accounts for one third of forest loss, with logging roads opening up the forests for agriculture, which accounts for the bulk of deforestation
- of the total 43 rivers in Thailand, 25 were found to be contaminated in 1991, with leachates and spills from mining and smelting operations posing problems from heavy metal contamination

In the Asia-Pacific region, as around the world, the conversion, degradation, fragmentation, and simplification of intact ecosystems has been extensive - all negative trends that are accelerating.

Examining the area converted is one way to approximate the 'footprint' of human activity on the planet. 'Converted area' is defined as natural ecosystems that have been transformed into cropland, permanent pasture for livestock, forest plantations, human settlements, or land for other activities. A measure of more recent activity is 'natural forest conversion' during the 1980s (Table 1).

TABLE 1 *Historic extent of ecosystem conversion, and recent rate of natural forest conversion, in selected countries of the Asia-Pacific region (in order of total land area)*

COUNTRY	LAND AREA(million hectares)	SHARE OF TOTAL AREA CONVERTED (percent)	SHARE OF NATURAL FORESTS CONVERTED, 1980s (percent)
Bangladesh	13.0	81	33
Cambodia	17.7	25	10
Philippines	29.8	36	29
Vietnam	32.5	26	14
Malaysia	39.9	15	18
Thailand	51.1	43	29
Indonesia	181.2	27	10
Australia	764.4	60	n.a.

Sources: UN Food and Agriculture Organisation (1995), electronic database, Rome; UN-FAO (1995), *Forest Resources Assessment, 1990: Global Synthesis*, Rome; World Resources Institute et al., (1996) *World Resources 1996-97*, New York: Oxford University Press, 1996; Worldwatch Institute (1997) *Vital Signs 1997*, Norton: New York

ACF lists these indicators of environmental degradation, less to promote debate about the extent to which APEC or WTO-driven trade is (or will be) responsible for environmental damage, and more to pose the question: **what are policy programs for freeing up trade and liberalising investment doing to arrest or prevent these existing trends of ecological degradation?**

Promoters and defenders of free trade often answer such questions by saying that as increased trade provides more wealth, then better environmental policies will be put in place, or population growth rates will reduce, or poor people will use less firewood as household fuel (which accounts for more than three-quarters of the timber harvested in developing countries).

Such responses, however, do not properly address the ecological nature of trade itself - that the exports and imports of timber, minerals, fish, or crops are also the trade of forests, catchments, soils, and wildlife.

The central theme of this submission is that as human economies and nature are

inextricably linked, so is trade policy linked with environmental policy. Australia is no exception. The ACF submits that the Australia Government has adopted trade policies that ignore this link, by excluding the environment, its national interest, and its advocates from the policy process.

1. APEC's progress towards Australia's economic, trade and regional objectives and the domestic implications

1.1 Comments on Australia's current economic and trade liberalisation objectives

Australia's national objectives for trade liberalisation via APEC and other structures are not well known to the general public. In establishing a picture of what Australia is seeking from the APEC process and what implications are expected domestically, it is necessary to go to several documents. These include the Trade White Paper, the Trade Outcomes and Objectives Statement, and Australia's APEC Individual Action Plan.

In assessing these documents ACF has identified concerns with the direction Australia is seeking for APEC, and the economic, trade and regional objectives that are defined. The emphasis of these policy documents is that environment has not been incorporated into economic policy, and where environment protection is mentioned, it is frequently identified as a threat to economic development and the 'national interest'.

The ACF believes that the low priority given to environmental protection is contrary to the views of the Australian people. Public opinion polling consistently finds that a substantial majority of the Australian community rate environmental protection as highly as economic growth. For example, an ABS survey of 18,500 households in 1996 found that 70 per cent of respondents rate environmental protection to be as important as the nation's economic growth.

ACF identifies the following examples as illustrative of the limited nature of Australia's objectives in current policy statements:

1.1.1 In the National Interest, Foreign and Trade Policy White Paper

(DFAT, August 1997)

Chapter One of the recently released White Paper, defining 'The National Interest', does not identify ecological sustainability as part of the 'national interest'. Brief reference is made to environmental degradation on a global level posing a threat to national security.

The scope of the policy is limited by omitting a key aspiration of the Australian people from the criteria on which trade and foreign policy decisions are made. Despite the general impression from the document that the 'national interest' has not been clearly defined, it is cited as a reason for taking substantial policy steps.

The ACF is disturbed that the consideration of the future of Australia's environmental assets and natural capital appears in this document in only one section addressing strategies for advancing Australia's interests. Further, the only purpose of this reference is to identify international environmental agreements as a potential threat to Australia's interests, noting that:

"In its pursuit of international action which contributes to sustainable development, Australia must be active in protecting its fundamental national interests. The difficulties this will entail should not

be underestimated." (p.49)

In addressing the linkage between trade and environment, the White Paper notes the link, suggests that trade and environment policies should be mutually supporting, then clearly indicates that Australia's response will not accept trade rules and agreements which put the solutions to environment problems ahead of the 'national interest':

"On the relationship between trade liberalisation and environmental protection, the Government will work for an outcome which ... prevents environmental objectives being used to support protectionism, and which allows Australia to resist the imposition of solutions to environmental problems which are contrary to Australia's national interests." (p.49)

The limited and vague definition of 'national interest' - one that does not regard ecological security as part of the national interest - has fundamentally important implications when it sets the basic policies that will affect the health and sustainability of Australia's environment.

"...the Government will apply a basic test of national interest: does it advance the security of the Australian nation, and the jobs and standard of living of the Australian people..."

The almost total exclusion of the environment from the DFAT (and the Government's) definition of 'national interest' directly contradicts the 'whole-of-government' process currently defining environmental matters of national significance and interest in Australia.

To develop a clear and unambiguous jurisdiction for Australia's national government on environmental matters, the Council of Australian Governments (COAG) is attempting to define 'national environmental significance'. A draft from earlier this year lists the following as environmental matters of national environmental significance:

1. a) Places or species of national importance

- World Heritage Areas
- Ramsar wetlands
- Wetlands listed in the *Directory of Important Wetlands in Australia*,
- Places listed on the Register of the national Estate, and places of national significance
- Endangered or vulnerable species and/or communities
- Habitats and species covered by international migratory species conventions and agreements such as JAMBA, CAMBA, the Bonn Convention, and the Whaling Convention

1. b) Environmental matters that are most effectively dealt with by a national approach

- Genetically/biologically modified lifeforms
- Feral animals and weeds
- Conservation of native vegetation
- Protection of marine environment
- Veterinary and industrial chemicals
- National environmental protection measures
- Environmental and heritage guidelines and standards

- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal
- Commercialisation of flora and fauna
- International trade in wildlife
- Protection of cultural heritage
- Environmental and heritage datasets arising from national and international agreements
- Threatening processes at the national level, such as land clearing

1. c) Environmental matters with global dimensions

- Reducing greenhouse emissions and protecting greenhouse sinks
- Control of ozone depleting substances

1. d) Environmental matters involving one or more governments

- Actions of one state affecting another and requiring resolution (such as projects which affect the flow of cross-border rivers)

1. e) Strategic environmental matters for which the Commonwealth has primary carriage

- Environmental matters in the *Telecommunications Act 1997*
- Quarantine matters
- Approval, management, and decommissioning of uranium mines
- Nuclear activities as defined in the *Environmental Protection (Nuclear Codes) Act 1978*
- Aviation airspace management and aircraft noise

1. f) Agreed matters for intergovernmental consideration

- Management of scheduled wastes
- COAG reforms (eg. environmental flows, water quality)
- Regions (eg. Murray-Darling Basin, Australian Alps, Cape York Peninsula)

Environmental matters of 'national significance' are matters in which the Commonwealth must have a formal legislative role. Their definition needs to be based on the recognition that local and regional issues can comprise a cumulative impact of national and international significance, and that other decisions by the national government (such as on exports or investment) can have a major impact on areas of national and international environmental significance.

The ACF recommends that the Senate Committee consider appropriate definition and identification of environmental matters of national significance to be incorporated with DFAT's definition of 'national interest'.

1.1.2 Trade Outcomes and Objectives Statement

(DFAT, February 1997)

Australia's objectives:

"3.1.1 To raise continually Australia's international competitiveness by...cutting the regulatory burden faced by business." (p17)

ACF is concerned that this policy objective (that also appears in the White Paper) may be targeting regulation that aims to protect Australia's environmental standards. Regulation such as Environmental Impact Assessment, the national interest assessment in Foreign Investment Review procedures, and controls over export approvals are important procedures established to ensure that the public's desire for ecologically sustainable development are taken into account in the decision-making process.

ACF is concerned that Objective 3.1.1 is based on a superficial assessment of the barriers to investment. This document fails to demonstrate the extent or nature, or even the existence of, a 'regulatory burden faced by business' in Australia. It is ACF's view that important national direction setting needs to be based on thorough analysis, rather than generalised statements.

ACF also notes that Objective 3.1.1 contradicts APEC's Non-Binding Investment Principles which state that,

"Member economies will not relax health, safety and environment regulations as an incentive to encourage foreign investment."

Expanding the Trade Agenda:

"Australia will need to assess carefully proposals made for the purposes of protecting the environment as these could significantly impact on Australia's competitiveness and access to overseas markets. We need to ensure that no measures are taken which restrict our trade performance and harm our competitiveness." (p 59)

ACF is alarmed that generalised and unsubstantiated principles with clear environmental implications (such as Objective 3.1.1) have become part of Australia's national policy on trade. This document fails to make any case to establish why protecting the environment could have a negative impact on competitiveness. In addition, there is no cost-benefit analysis of pursuing economic and trade objectives which may create environmental costs for current and future generations.

It is ACF's view that unless development and trade is regulated in such a way to account for and avoid environmental costs, any economic benefits will be short-lived and reduced. This is a principle which has been agreed to by all Australian Governments as part of the Inter-Governmental Agreement on the Environment:

"3.2 The parties consider that the adoption of sound environmental practices and procedures, as a basis for ecologically sustainable development, will benefit both the Australian people and environment, and the international community and environment. This requires the effective integration of economic and environmental considerations in decision-making processes, in order to improve community well-being and to benefit future generations.

3.3 The parties consider that strong, growing and diversified economies (committed to the principles of ecologically sustainable development) can enhance the capacity for environmental protection. In order to achieve sustainable economic development, there is a need for a country's international competitiveness to be maintained and enhanced in an environmentally sound manner.

3.4 Accordingly, the parties agree that environmental considerations will be integrated into Government decision making processes at all levels by, among other things:

- (i) ensuring that environmental issues associated with a proposed project, program or policy will be taken into consideration in the decision making process;*
- (ii) ensuring that there is a proper examination of matters which significantly affect the environment; and*
- (iii) ensuring that measures adopted should be cost-effective and not be disproportionate to the significance of the environmental problems being addressed."*

ACF also notes that Objective 3.1.1 is in direct contradiction with key statements from the APEC process, such as:

"We will all work...to promote sustainable development, trade and investment in the region, through a vision for APEC that encourages members to integrate environmental considerations into their policy."

1.1.3 Australia's Individual Action Plan for APEC

Australia's 1997 Individual Action Plan for APEC reflects the objectives outlined in the previously mentioned policy papers.

ACF recognises that the Government's recent decision to abolish its powers to control the exports of all raw materials except uranium, is a commitment made in the 1996 IAP. This decision limits the ability of our national government to ensure that heritage sites and endangered species are not affected by resource extraction for export.

Over the last two decades this national procedure has lead to the protection of environments of key conservation significance (such as Fraser Island), and the management of resource extraction to avoid damage to heritage values or endangered species (such as North Stradbroke Island).

A replacement trigger has not been introduced to ensure the national government has a role in ensuring that sites are developed in a sustainable way, if at all. The ACF believes this is an example where trade policy has impacted on the national environment, where there are no sufficient safeguards to ensure that the removal of a 'trade barrier' with environmental benefits is replaced by specific measures to protect the environment.

The ACF notes that the IAP commits to removing the 'national interest' screening process administered by the Foreign Investment Review Board. This process has allowed the national Government to assess whether a development has sufficient safeguards to ensure environmental sustainability. It also provides the national Government with the power to prevent a development proceeding that is unsustainable and against the national interest.

It is curious that the most recent policy statement on trade calls for defence of the 'national interest' while the only formal procedure allowing thorough and objective scrutiny of the 'national interest' is

to be removed.

1.1.4 Australia's commitments to fulfil WTO requirements

The ACF is concerned that the GATT's power to overrule non-tariff barriers to trade is targeting progressive national laws and regulations designed to protect health, safeguard the environment and manage natural resources sustainably.

Trade measures can be very effective in improving environmental performance. A good example is Australia's use of DDT in the 1960s.

The first serious report in Australia on the issue of insecticides and pesticides appeared in 1969, seven years after the publication of *Silent Spring* by Rachel Carson in the US. Restrictions on the use of DDT in animal foodstuffs and for protecting cattle from insects were introduced in Australia as early as 1964. Yet, during the five-year period up to 1969, the amount of DDT being used in Australia had increased by a factor of four, to about two million pounds per year.

In this case, it is clear that knowledge about the damaging impact of DDT on the environment, and restrictions on its use, did not immediately lead to a reduction of the amount released to the environment. Effective measures to reduce DDT use were implemented in Australia only after the US Food and Drug Administration decided to reduce the upper limit of DDT in meat from seven parts to one part per million.

The Australian Government acted only when it feared losing export opportunities for meat, as environmental concerns were translated into the language of economics. 'The greater experience, greater knowledge, and greater concern of the US in matters of pollution meant nothing to the Australian authorities, who were unwillingly forced to act on DDT through hard-headed economic consideration alone.'

The ACF is concerned by the Trade Outcomes and Objectives Statement which outlines Australia's intention to pursue countries that it believes breach WTO rules on environmental grounds.

"Australia participates actively in disputes where we have a trade interest, including as a third party, to ensure that any bilateral deals between our trading partners do not disadvantage us."

Like other WTO members, Australia has the option of using the Dispute Settlement Mechanism to resolve bilateral disagreements.

Australia is currently participating as a third party to defend the major export interests of our beef and prawn industries in disputes over the EU's ban on imports of meat produced with hormonal growth promotants and the US ban on imports of prawns not caught using turtle excluder devices."

It appears that the belated reactions of the Australian Government more than 25 years ago to reduce DDT in our meat exports would not be consistent under our current trade objectives. Rather, under these objectives, Australia would join with other countries to challenge the US decision to improve standards of DDT contamination through the WTO, rather than address our domestic shortcomings on environmental policy.

400 out of 4,826 disputes heard by the WTO between 1980 and 1995 (or 8.3 percent) have been related to environmental matters. Some involve the use of national environmental standards to reject the importation of a product. One example that illustrates Australia's role in these disputes is the US ban on imports of prawns caught with an incidental take of sea turtles without turtle conservation measures, or using nets that are not fitted with turtle excluder devices.

The US has domestic environmental standards that require commercial prawn (shrimp) harvesting to protect marine turtle populations. Australia considers that the US measures to apply their own national standards to regulate the import of prawns are inconsistent with the obligations that the US has accepted under GATT 1994.

Australia claims to be concerned, not about the validity of the environmental objectives of the US to protect and conserve sea turtles, but with the particular measures it has chosen to pursue these objectives. Australia points to the listing of five turtle species under the *Endangered Species Act* and ongoing research to demonstrate its commitment to turtle conservation.

It is ACF's assessment that the US's action on this issue is fair, non-discriminatory and complementary to national environment laws and international biodiversity agreements. ACF is opposed to action taken by our national government which aims to undermine the progressive environment laws of another nation, rather than upgrading our environmental standards to an equivalent level. Despite the Australian Government's third party challenge, the Queensland Commercial Fishermen's Organisation (QCFO) has recently voted to support the compulsory use of 'bycatch reduction devices' in 'problem areas'.

It is crucial to simultaneously maintain and enhance environmental protection - 'upward harmonisation' - and avoid 'green protectionism', that is, trade measures that purport to protect the environment but are really aimed at protecting jobs and living standards in developed countries, at the expense of the legitimate aspirations of people in developing countries.

The democratisation of WTO processes is also a key issue. The ACF believes that Australia's key trade policy documents should acknowledge an ongoing objective to reform the WTO processes to make them more democratic.

The ACF notes that, unlike United Nations processes, the WTO documents and meetings are not available or open to non-government organisations (NGOs). The WTO's Dispute Resolution process, which is binding on governments, is criticised for its lack of democracy, with unelected officials being responsible for judgements and no requirement to report the reasons for a decision.

Australia is to be congratulated for passing a resolution at the UNGASS meeting, that recognised the role of trade and environment NGOs, and sought to promote effective dialogue with 'major groups' (including NGOs). The representative of the Australian delegation stated:

"I make this statement on behalf of Australia, Canada, Japan, Norway and the USA ... We wish to register our regret that, this review of progress made by the international community in the five years since Rio, could not find agreement on an expression to reflect the important role played by major groups in the area of trade and the environment. UNCED itself, Agenda 21, and the very important follow-up action to deliver Agenda 21, all owe much to the constructive and sustained efforts of major groups."

ACF believes that Australia should continue to promote the role of NGOs internationally and involve them domestically, and trusts that while countries continue to make major agreements on far-reaching economic issues, they will at least be able to find 'agreement on an expression to reflect' the role of NGOs in international trade forums.

1.2 APEC's role in progressing Australia's objectives

Australia has taken a leading role in the development of APEC. APEC appears to be continually modifying and expanding its role as a forum for regional agenda setting.

In November 1996, the APEC Leaders stated that their shared commitment is to:

"growth-oriented policies, the broadest participation in the regional and global economy and an environment of stability and security."

APEC's role in facilitating an open multilateral trading system is a voluntary adjunct to the legally binding liberalisation processes of the World Trade Organisation. It is designed to accelerate the pace of WTO reforms and has broadened its agenda to include investment liberalisation and facilitation, trade facilitation, and economic and technical cooperation.

Whether or not APEC has been, or will be, successful in achieving these aims is open to discussion and outside the scope of this submission. The ACF is seeking to identify potential problems and opportunities for the environment within APEC's agenda.

The ACF recognises that APEC has attempted to introduce an environmental diplomacy strand as part of its regular agenda. This strand is located within the Economic and Technical Co-operation section of APEC and comprises discussion, the identification of issues, the swapping of information, and the establishment of voluntary action agreements.

There is some limited reference to environmental concerns in Ministerial agreements.

It appears however, that within the framework of the WTO and other trends set by the globalisation of capital, APEC's trade and investment liberalisation agenda receives more serious attention and action by domestic governments than the principles set by APEC's environmental diplomacy.

For example, Australia's 1996 Individual Action Plan (IAP) commits to selling 30 percent of Telstra, liberalising foreign investment restrictions, and enabling greater levels of privatisation. There are no environment policy commitments in the IAP.

Environmental NGOs have no inherent problem with environmental diplomacy occurring at the APEC level. We are however sceptical of how positive cooperation and discussion on this level can compete with the more dominant and often contradictory agendas of trade and investment liberalisation. Rather than the APEC forum recognising where environment policy needs to take precedence for both ecological and economic reasons, it appears this forum believes it is possible to 'have its cake and eat it too'.

The misconception that regional environmental problems can be easily addressed within the framework of policies that undermine ecologically sustainable development is recognised by a statement from the most recent APEC Leaders Declaration:

"Promoting rapid economic growth that ensures a healthy environment...is a fundamental challenge"

The ACF believes that APEC is struggling with the development of a sustainable development agenda and while it does so, the ecosystems of the region are losing the capacity to support the well-being of communities and economic development. The region's substantial environmental pressures are growing as economic development booms. Some of these pressures include population growth, depletion of natural resource stocks, excessive consumption, unsustainable energy paths, loss of water and air quality, and land degradation (see pages 3-6).

The ACF believes that some APEC Leaders are aware that environmental pressures are becoming more problematic as other policies of an economic nature are implemented. The challenge for APEC now is to move beyond the limited nature of its environmental diplomacy to focus on the interrelationship between economic policies pursued by APEC and their potential impact on

environmental degradation, as linear growth trajectories rupture cyclic ecological systems.

The ACF believes that this challenge cannot be met by APEC without broadening the influence of groups, mandates, and interests driving the agenda. APEC has provided a extensive range of mechanisms to ensure that it receives a narrow band of advice from business sector advisers and advocates. To address the environmental challenges that arise through APEC's economic agenda, the forum participants will need to extend their invitation to environmental advisers and advocates and the NGO community generally. This issue is addressed in more detail in ACF's recommendations about future directions for APEC.

1.3 The domestic implications of implementing Australia's objectives

The APEC Environmental Vision Statement of 1994 declared that:

"...member economies should support multilateral efforts to make trade and environment mutually supportive, consistent with ... the Rio Declaration."

Despite this principle, there are indications that APEC policies and WTO agreements will override the existing powers of United Nations conventions and treaties, particularly in the area of the environment on issues such as climate change, biodiversity, and hazardous waste. The Australian Government believes that:

"The UN's importance to Australia is in core areas of international security and disarmament, environment, human rights machinery, targeted development programs...Reform of the UN over the next fifteen years will require a fundamental reassessment of the scope of its activities. A more focused approach will be needed if the system is to exert genuine authority. Likely pressure points will be the environment..."

In the past, Australia has earned a reputation as a leader in the field of international agreements. With our federated structure and jumbled jurisdiction over environmental matters, international conventions have been instrumental in assisting Australia to protect environments of international significance. However:

"...the Government may need to stand aside from an international agreement if it does not adequately protect Australia's national interests, and if others cannot be convinced that Australia's proposal are superior in terms of both the environment and the global economy..."

The Minister for Foreign Affairs and Trade, in releasing Australia's new White Paper on Foreign and Trade Policy, stated that its key elements include:

"strong support for practical measures which advance Australia's trade and interests including through the World Trade Organisation and the free trade and investment objectives of APEC...linked to the Government's focus on bilateral relations is a more selective approach to the multilateral agenda. Australia must concentrate its involvement in multilateral issues on those areas where its national interests are closely engaged."

In the White Paper, Australia excludes the environment from its policy on 'national interest'. Moreover, it is inconsistent policy on multilateralism for the Australian Government to effectively ignore multilateral agreements on the environment, while continuing to support and advance multilateral economic agreements.

"There will be issues, including international trade negotiations, global environment negotiations, and political and social issues such as human rights and disarmament, where views may differ

widely on what constitutes Australia's best interests...These decisions must take into account the views of business and community groups, but in the end the Government must act on the basis of what it judges to be the overall national interest."

Views between the government and the community are far more likely to 'differ widely' if ecological security and Australia's environmental health are not regarded as part of our 'national interest'. The first part of this submission (pages 7-12) demonstrates this current deficiency in the Government's definition.

1.4 Improving Australia's economic, trade and regional objectives

The adoption of agreements on environmental issues and standards as part of the daily business of trade will assist in trade being agreeable to the community, and will ensure that trade and investment options are available for future generations.

Liberalisation of investment will not on its own act to protect the environment. The national government has a legitimate and ongoing role to ensure that investment complies with standards designed to protect the environment, and to facilitate investment of benefit to the 'national interest'.

As governments surrender these roles to unspecified market mechanisms, the environmental disbenefits remain unaccounted for. For example, the Mineral Policy Institute notes that increased exposure of economies to the mining market sector has led to a range of environmental problems which could have been avoided if open investment policies were matched with agreements about environmental standards, such as acceptable use of water resources, rehabilitation requirements, and impact assessment procedures.

Such agreements could also prevent countries competing with each other in a way which leads to the local degradation of resources that reduces options for present and future generations. The setting of standards could prevent the current 'race to the bottom' which governments feel they must join in order to attract investment.

Liberalisation policies need to be developed with a rigorous assessment of the real cost and values of the policy initiative. Increased production and throughput may not necessarily bring a net wealth gain for a nation if it has to clean up problems created by inefficient, irresponsible or excessive use of a site, resource or ecosystem, such as soil erosion, species and habitat loss, and water pollution.

The objective of economic efficiency is not growth for growth's sake. The new Report to the Club of Rome, *'Factor Four'*, finds that many trade problems would be alleviated if environmental regulations were valid and strictly observed. Conversely, many environmental problems would be avoided or redressed if trade recognised its intrinsic relationship with nature (see Attachment 1 for an excerpt from *Factor Four*).

2. Future directions of APEC

2.1 Why ACF has an interest in the future directions of APEC and other international trade agreements

Impact of 'free trade' on the environment

Trade between countries and people has existed for millennia and is always likely to exist. The trend of international trading agreements emerging in the last decade with WTO's General Agreement on

Tariffs and Trade (GATT), and the establishment of the APEC forum, has introduced a new momentum for trade and a range of new or newly dominant economic and political trends.

As ecosystems are affected by both economics and politics, the new trends resulting from international trade liberalisation will have an impact. There remains debate about the extent and the nature of this impact, and therefore the ability and the need for these processes to be modified for the benefit of the environment.

Market and intervention failures are a technical way to describe the root cause of many environmental problems. While these systemic failures occur at both the domestic and international level, international trade liberalisation may be institutionalising these further and exacerbating their impact to a global scale.

The main market failures are the inability of the market to properly account for the use of ecological services and environmental damage in the price of a product, the failure to allocate a real value to the features and functions of ecosystems, and the misallocation of property rights for environmental assets.

ACF is concerned that international trade arrangements are leading to a reluctance from governments to correct market failures, because they are competing for investment. There is no compelling reason why trading agreements could not assist in correcting these market failures for the environment through trading rules, but it appears that due to the current situation, market failures are being exacerbated by intervention failures.

Intervention failures are described by the OECD as:

"when government policy interventions fail to correct for, create and/or further exacerbate market failures...when governments create economic incentives through production and export subsidies which encourage actions that are environmentally adverse...or the lack of appropriate environmental policies."

Governments throughout the world are moving away from the use of traditional state mechanism for providing services to the public, such as the taxing of capital. Free trade and investment laws allow capital to issue the threat that it will simply move elsewhere. We are experiencing a world-wide trend of governments, with shrinking revenue for social services, freeing up regulations and resources to attract or keep capital.

While trading agreements fail to correct both market and intervention failures, we can only assume that as the new driving force behind economic policy, these agreements will lead to further exploitation of the environment.

Increased economic activity, the trade optimists argue, leads to additional resources for environmental protection and a growth in the middle class demanding greater protection. They note that environmental protection and new technologies cost money, and as the world becomes wealthier, nations will be able to afford better environmental standards.

The ACF is concerned that the rapid growth agenda being promoted by agreements such as APEC, is fundamentally in conflict with the maintenance of sustainable ecological systems.

There is also concern that major trading agreements are not incorporating the seventeen environment agreements, made through the United Nations, that place limits on trade that impacts negatively on environmental sustainability.

Problems for the Asia-Pacific region in expanding economic growth without environmental policies and regulation

For a variety of reasons, including the policies and agendas promoted through APEC, the Asian region is experiencing rapid economic growth. This is leading to the types of ecological trends outlined in the Introduction.

"With its potential ability to foster greater economic growth, via trade liberalisation or otherwise, without raising regional environmental standards, APEC has the potential to facilitate widespread environmental degradation in Asia....Without effective institutional capacity building, this (APEC's) reliance on Governments, who have neither the capacity nor the incentives to capture the massive environmental externalities associated with rapid economic growth, will undoubtedly have tremendous effects on the region's environment."

Public participation in the development of Australia's trade policy

ACF has concerns about the way in which trade decisions are made with little emphasis on social or environmental implications. This is in part due to the incorporation of a large number of views and interests from a narrow sector of society, due to a lack of public participation in trade policy development.

For example, the Charter of the Trade Policy Advisory Council is to advise the Minister for Trade on:

"...substantive international trade and business development policy issues and to be a forum in which matters of concern to members in the areas of international trade and business development can be examined."

The 33 members of the Council charged with this responsibility on behalf of the Australian people include representatives from the following businesses, corporations, institutions, and organisations:

- MIM Holdings Ltd (Chairman)
- Price Waterhouse
- Transfield Holdings P/L
- Ascan Focus Group P/L
- Tim Allen Consulting Group P/L
- Clough Ltd
- Bustan International
- Dynek P/L
- Zip Industries (Aust) P/L
- SBC Australia Ltd
- AWA Ltd
- University of New South Wales
- Federal Hotels Ltd
- Australian National University
- Australian Workers Union

- ICI Australia
- Central Sydney Health Service
- P&O Containers
- Food Spectrum P/L
- Camerlin (Aust) Group
- BHP
- National Farmers Federation
- Australian Livestock Exporters' Council
- ANZ Banking Group Ltd
- Lend Lease Corporate Services
- Mitsubishi Australia Ltd
- SIR P/L
- Fujitsu Australia Ltd
- Nutri-Metics International P/L
- Davies Ryan DeBoos
- Gillett Sharpe International Lawyers
- Tassal Ltd

Expertise from the disciplines of ecology or environmental science, and NGOs from the environmental, aid and development, and social justice sectors, are not represented.

2.2 Trade agreements that incorporate environment and social

considerations - the future direction for APEC

Trading agreements may have benefits for the environment if they have a role in the correction of trade policy intervention failures that impact negatively on the environment - specifically subsidies for damaging industries and production processes.

The removal of these subsidies, in theory, means that producers will have to account for, and incorporate the true cost of the environment into the product, making it cheaper to consume less of these environmental services. Only those companies and economies that can produce efficiently and sustainably, will be competitive without protection. It is argued therefore, that there will be more efficient and environmentally sustainable production patterns.

The Worldwatch Institute estimates that governments around the world are spending at least \$500 billion of taxpayers' and consumers' money each year in support of activities that harm the environment, such as mining, logging, irrigation, pesticide and fertiliser use, crop and livestock production, and energy consumption.

The Worldwatch Institute's recent report, *Vital Signs*, cites the following examples of environmentally harmful subsidies:

Mineral production	Low or zero royalties on oil and other minerals; aid for coal production in Germany, Russia, and other industrial countries
Logging	Low timber royalties in developing countries; below-cost sales in North America and Australia
Fishing	Billions of dollars per year in subsidies for fuel, equipment, and income support for fishers worldwide
Agricultural inputs	\$13 billion a year lost on public irrigation projects in developing countries; billions more lost in industrial countries; subsidies for pesticides and fertilisers in some developing countries
Crop and livestock production	\$302 billion in annual support for farmers in Western industrial countries; low fees for grazing on public lands in North America and Australia
Energy use	\$111 billion in fossil fuel and power subsidies in developing countries each year

The ACF is concerned that while tariffs are being reduced for the manufacturing sector, there is little momentum from the trading organisations to push Governments to reduce their subsidies for resource extraction industries.

The Australian experience is illustrative of this point. While tariff reductions in the manufacturing industry have been a bipartisan target, there has been no action on removing subsidies to industries such as mining, agriculture and forestry.

If Australia is to move *forward* in developing an environmental agenda for APEC, the first step is to agree on common principles. In examining the interface between trade and the environment, the Nautilus Institute has proposed a number of 'first principles' that should be considered as part of the future agenda for APEC and other trade forums:

"Integration of trade and environment

The very first principle is the recognition that trade and environment impacts and policies are interlinked, both at the national and the regional levels. Trade and investment policies should maintain the environmental integrity of ecosystems.

Cooperation

Common rules, guidelines, and frameworks for environmental management should be developed through processes of regional discussion and consensus-building. The more powerful countries should eschew the use of unilateral trade sanctions to impose environmental conditionalities, except in the context of international or regional agreements. Ample opportunities must be created for environmental concerns to be articulated by all members of APEC.

Mutual responsibility

No APEC country can claim the moral high ground as the guardian of ecologically sustainable development. The embrace of regional mechanisms which promote environmentally sound trade patterns will require all APEC countries to make changes in their existing domestic policies and to enact new policies.

Efficiency, eco-efficiency, and cost internalisation

One of the central aims of regional trade-environment cooperation is to generate market prices which take ecological costs into account. The reverse is also important: environment policies should promote economic efficiency and aim to ensure that scarce financial resources are well-spent.

Scientists and stakeholder participation

The creation of sound approaches to regional environmental management requires APEC to open its doors to scientists, especially ecological scientists, citizen groups, and other stakeholders. Scientists and stakeholders should receive ongoing opportunities to participate in the design and implementation of regional trade, investment and environment policies. Stakeholders include community, consumer, environment and development groups, labour unions, farmers, businesses and others.

Diversity and commonality

The general approach of APEC should be to promote common guidelines and frameworks while leaving micro-management to national and sub-national governments. Rather than the same standards, for example, APEC could aim to standardise information gathering and testing procedures, as well as standard-setting methodologies such as environmental and health impact and risk assessment. Harmonisation of standards should be pursued where appropriate."

2.3 Recommendations for improving public participation in Australian trade policy development, and Australia's objectives for trade

The ACF recommends to the Senate Committee that:

1. The Australian Government support and implement the central incorporation of environmental policies, considerations and regulation into its domestic policy responses to international trade agreements to ensure that:
 - trade and environment concerns are integrated and acted upon at the decision making level;
 - trade regulation and facilitation is environmentally responsible;
 - increasing economic integration with the region and the world does not place constraints on or lead to a downgrading of domestic environmental management policies and practises.
2. The Australian Government facilitate the involvement of environmental and social NGOs in the mainstream national trade advisory processes, such as the Trade Policy Advisory Committee (TPAC). This will assist in ensuring that:
 - multilateral trade agreements reflect the broad range of aspirations the Australian people have for economic development;
 - a broad range of expertise and knowledge is available to decision makers in their policy development process.
3. The Australian Government take all proposed multilateral trade agreement plans through the Parliament for debate and amendment to ensure that our involvement in agreements that may impact on a broad range of policy areas has been open to debate by the democratic process.
4. Trade policy officials investigate the following, with a view to incorporating the findings into Australia's trade policy documents:

- What are the ecological limits to the expansion of world trade?
 - Should the trade in some goods be prohibited?
 - In what ways can the regulation of trade and investment assist in beneficial social and environmental outcomes?
5. The Australian Government advocate for the WTO and APEC to introduce consultation, reporting and decision making structures for trade agreements that are open and based on democratic principles. This includes:
- Commitments to these agreements go through a process of Parliamentary scrutiny and debate.
 - Observer status and appropriate participation granted to NGOs in international trade forums (extensive NGO involvement in the Convention on Combating Desertification offers a useful model).
6. The Australian Government include, as part of its trade policy, support for the WTO and APEC to incorporate environmental policies and regulations into trading agreements. These policies and regulations should be designed to ensure that:
- increased economic integration does not lead to nations competing in a way that degrades the environment;
 - countries that take measures to internalise the environment costs of their production, are not priced out of export and investment markets by countries that do not acknowledge the environmental costs of production;
 - competitors seeking to converge standards, move environmental standards upwards, in the first instance towards the standards of the most environmentally advanced competitor, and eventually to world's best practice;
 - inefficient and ecologically damaging national policies and practises are phased out;
 - subsidies supporting environmentally damaging industries are phased out;
 - trade in certain products is prohibited - for example, endangered species, ozone depleting substances, and toxic waste;
 - environmental innovation and improved performance are encouraged through the process of international trade;
 - allow countries to set environmental, food and chemical standards appropriate to their own situation, as long as the standards are used locally and are applied without discrimination;
 - allow countries the right to use whatever measures they decide are necessary to protect the environment and the health of their citizens without fear of challenge under GATT;
 - the agreements reached by nations participating in United Nations processes are not undermined.
7. The Australian Government reaffirm its support for multilateral environmental agreements as an important tool to protect and enhance nationally significant environmental issues. Further that the Government work to ensure that the WTO and APEC processes work with the existing multilateral environment agreements, that target specific problems and issues.

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