THE ENVIRONMENT AND INTERNATIONAL TRADE NEGOTIATIONS

DEVELOPING COUNTRY STAKES

EDITED BY DIANA TUSSIE

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The Environment and International Trade Negotiations
Developing Country Stakes

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To Susan Strange

to whom I am deeply indebted

in memory of her spirit and pioneering mind
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Regional Integration and Building Blocks: The Case of Mercosur

Diana Tussie and Patricia Vásquez

Initial steps for shaping Mercosur can be traced back to 1986, when Argentina and Brazil started a process of managed regional trade, leading, for the first time, to the signing of seventeen sectoral protocols which were ratified by each member country in 1989. By 1991, those timid attempts at economic integration had evolved into major agreements for eliminating trade barriers. That year, Argentina, Brazil, Paraguay and Uruguay signed the Asunción Treaty by which the four Latin American countries committed themselves to establishing a common market by 1995. In moving towards that goal, signatories to the Treaty agreed on a four-year Trade Liberalization Programme and a commitment to establish a Common External Tariff (CET) by January 1995. Also, the Treaty of Asunción was amended once in 1994, in the Additional Protocol of the Treaty of Asunción, known as the “Protocol of Ouro Preto”, which includes common trade policy measures such as a common system of rules of origin, regulations against unfair trade practices by third countries, a Mercosur customs code and harmonized customs regulations (Laird, 1997).

The creation of Mercosur has rested on two pillars, the building of democracy and the trade policy revolution in the region. One after the other and with few exceptions, Latin American countries succeeded in leaving behind decades of military regimes and managed to consolidate democratic ruling. Most Latin American countries engaged in deep macro-economic reforms to reverse the perverse effects of the debt crisis of the early 1980s. Thus, the import substitution industrialization policies that characterised the 1960s gave way to import liberalization and market-oriented economic policies in most countries. Political consolidation came hand in hand with a rapidly increasing outward orientation made visible by unilateral adoption of market economies as well as a more participatory attitude in the work of the General Agreement on Tariffs and Trade (GATT) and later in the World Trade Organization (WTO).
Decision-making within Mercosur is by consensus, and rests with an intergovernmental body called the Common Market Council. The Council is made up of foreign and economy ministers, and in practice the presidents of each country, meeting twice a year. The Council designs policies, negotiates and signs agreements with third parties and approves “compulsory” decisions. The Council is assisted by the Common Market Group, which gives advice on social and economic issues. The groundwork of the Common Market Group is done by the Trade Commission of Mercosur, formed by public officials from six ministries and representatives of the central banks of each member country. The Trade Commission deals with trade and customs regulations, making suggestions to the Common Market Group about new rules or about ways of modifying existing ones. It builds on research and consultations carried out by technical committees in charge of specific issues such as the environment, technical barriers to trade, safeguards, and non-tariff barriers to trade.

Pragmatism seems to be the essence of the functioning of Mercosur. Agile decision-making and the absence of supranational institutions are the core elements behind its obvious flexibility. The only permanent office is the Administrative Secretariat, created to assist member countries with purely administrative issues. Similar to NAFTA, Mercosur has avoided the creation of permanent structures, and relies on inter-governmenal bodies and existing institutions. Weekly meetings are organized around a rotating six-month chairmanship held by each country in turn (pro tempore presidency). This minimalist approach to institution-building breaks with past integration attempts that took place around gigantic and complex structures, which remained out of all proportion to the actual trade process. However, there is a down-side to minimalism. Even the smallest disputes tend to go up for settlement to the presidents, which means that small disagreements become overly politicized and can even risk progress in unrelated topics.

Mercosur could be understood as a means for member countries to expand outward towards foreign markets and attract foreign direct investments, in a context of unilateral and multilateral trade liberalization. Business has been instrumental in achieving those objectives. In fact, the group’s path is mainly drawn by agreements between the government and the private sector, with little input from other actors in the society. With Mercosur, it is now easy for companies to swap parts, products and managers across borders.
The greater part of intra-regional trade was liberalized between 1991 and 1994, while a few products were included in a “convergence regime” (régimen de adecuación) which allowed for exceptions to the duty-free treatment until 1999 (Paraguay and Uruguay will have an additional year to comply). Exceptions apply to the automobile and sugar industries, which are subject to special arrangements, and to groups of products considered sensitive by each member country, mostly in area of capital goods, chemicals, computers and telecommunications (Bouzas, 1995; Laird, 1997). With these few exceptions, today intra-Mercosur trade in most products is tariff-free, and the CET adopted in 1995 is now applied to most imports.

The adoption in 1995 of the main common trade tool, the CET, marked the formal launching of Mercosur. The CET is applied on 11 tariff levels, with tariff rates of 0% minimum and 20% maximum, reaching an 11.3% average. Almost 88% of total tariff lines have had their CET operative since 1995, while the remainder are part of the “convergence regime” mentioned above, which allows for a maximum of 300 products listed per country (Paraguay is allowed 399). Mercosur remains a customs union in the making until remaining tariffs are completely slashed and until full implementation of the CET (Bouzas, 1995; Bouzas, 1997). Unlike NAFTA, Mercosur still lacks commitments on free trade in services, or on such controversial issues as intellectual property and government procurement. Nor do agreements allow free movement of labour.

Despite this pending homework, Mercosur remains the most ambitious scheme of regional integration since the creation of the European Community in 1957. With 200 million consumers, it represents the fourth largest integrated market, after NAFTA, the European Union (EU) and Japan. Since its creation, Mercosur has shown a clear dynamism: total exports among Mercosur countries, which were US $4 billion in 1990, more than tripled to $14.5 billion in 1995. Also, combined GDP has grown by an annual average of 3.5% since 1990. However, some of this marked trade expansion is not directly attributed to Mercosur, because trade with other countries in region also expanded. Also, one of the fastest-growing areas is automotive trade between Argentina and Brazil, which resulted from bilateral agreements that are not part of Mercosur. The increasing trade activity within Mercosur has started to attract other partners. As of 1996, a free trade agreement was signed with Chile, which became an associated partner, but without
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adopting the CET due to its relatively more open trade policy. Bolivia also became an associate member in February 1997, and Venezuela is currently showing strong interest in following suit.

This dynamism of the South American Common Market goes hand in hand with the expansion of a broader regional unit, the Free Trade Area of the Americas (FTAA) which aims at removal of all barriers to trade and investment by the year 2005, as agreed by the heads of states of thirty-four countries gathered in Miami at their first Summit of the Americas in 1994. The environment was one of the main topics on the agenda of the meeting. Participating countries agreed on four principles to lead the path towards a hemispheric economic integration: to preserve and strengthen democracy; to promote prosperity through economic integration and free trade; to eradicate poverty and discrimination; and to “guarantee sustainable development and conserve the environment for future generations”.

The development of the agenda on the environment has matched the two phases of Mercosur. During the preparatory phase, which extended from 1991 to 1994, the group centred its development on a narrowly defined trade policy agenda. The environment was a side-issue, hardly among the hierarchy of priorities. The second phase started with the formal launching of Mercosur at Ouro Preto in 1994. At that point, the environment began to emerge as an official issue per se. Piecemeal cooperation has developed on the definition of shared interests over jointly owned resources. The definition of a proactive agenda, however, is blurred.

The next section of this chapter reviews the prominent role that jointly owned river resources have historically played in the region as the main focus of political and even military competition. The section highlights the influence of political cooperation in eliminating a geopolitically biased vision of the environment. The section after this starts with a chronological description of the evolution of the environmental issue since the creation of Mercosur. It tries to show how natural resource management has evolved from being a bone of contention to a meeting point allowing the gradual emergence of what we could call a “condominium approach” for managing natural resources. The following section shows how the market plays a significant role in moving the environmental agenda forward. The penultimate section reviews the intra-regional and extra-regional issues to be considered for building a proactive environmental agenda. Finally, the last section offers some conclusions.
COOPERATION ON THE ENVIRONMENT: THE STARTING POINTS

The management of shared natural resources has always been a conflictive issue, and thus high on the regional agenda. Until the mid-1980s, relations in the region were tinted by the military rivalry between Brazil and Argentina. A geopolitical vision of the environment prevailed, and the course of regional environmental relations followed the ups and downs of this vision. The struggle over control of the main shared natural resource, the River Plate waterway system, was marked by a tense as well as intense record of cooperation and conflict, shown on the one hand by tensions between Brazil and Argentina, and on the other by competition to attract Paraguay and Uruguay to favour their respective causes.

In the late 1960s, massive hydroelectric power projects seemed to be multiplying endlessly in the region’s shared water resources, exacerbating the tense relationship. In 1969, the present Mercosur members and Bolivia ratified the River Plate Basin Treaty as a preliminary attempt to work out principles for a division of regional waters, over which a deep-seated conflict had always been on the point of flaring up. Signatories to the Treaty pledged to make the necessary legal arrangements at home to improve navigation, the use and conservation of water resources, and the development of physical infrastructure. They also made a commitment to the sound use of waterways, animal and plant life preservation, and mutual cooperation in education, sanitation and the prevention of diseases. But the Treaty had few binding commitments. It was mainly an exercise in mutual containment, and did not really help to settle the roots of the disagreement. Two years later, the signatories agreed that on international rivers with successive courses each country could make use of the waters in accordance to its needs “as long as it causes no injury to another” and does not affect use of the river or alter the conditions of navigation (Milenky, 1978).

The vagueness of this pronouncement did not help to resolve the simmering conflict over the division of waters, which flared up again barely two years later, when Brazil announced the construction of the Itaipú Dam with Paraguay. Argentina felt immediately threatened. The dam, to be located 13 kilometres from the Argentine border on the Paraná river, was planned to become the world’s largest hydroelectric complex at the time. The project upstaged Argentina’s own plans, introduced technical complications for Argentine downstream projects, and opened the broader issue of the respective right of countries to international waterways.

Itaipú became a cause célèbre in 1972, when Argentina tried unsuccessfully to amend the final declaration of principles at the United
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Nations Environment Conference in Stockholm to include a call to countries to consult with each other before taking action on international rivers. Argentina maintained that the Paraná canyon was a “geographic peculiarity”, a hydrological unit in which changes at any point affect all others. Brazil rejected the prior-consultation proposal, upholding a country’s right to act unilaterally in matters of international rivers as long as no damage to others is caused. After losing the diplomatic battle, Argentina accelerated plans to build two dams south of the Itaipú site, at Corpus and Yacretá. At the end of 1972, representatives of both countries convened at the UN to avoid going to war over the issue (Herrera Vegas, 1995).

Although war was avoided, the conflict simmered on. It was partially settled seven years later, when Brazil, Argentina and Paraguay signed the Corpus-Itaipú Treaty. The Treaty agreed on specific rules for building two hydroelectric complexes on the Paraná River: Corpus between Argentina and Paraguay, and Itaipú between Brazil and Paraguay. (Segre, 1990). Nevertheless, Argentine fears of lagging behind in the geopolitical competition over water and energy were not appeased, and so it hurried to get on with Yacretá, yet another bi-national project with Paraguay. From the start, the Yacretá project was questionable. The feasibility study, for example, overlooked the fact that the geographical and soil conditions of the dam site on the Paraguayan border were unsuitable (Tussie, 1995). Nonetheless, the World Bank and the Inter-American Development Bank supported the project in 1979, with $200 million dollars each; at the IDB, it was the single most important loan at the time. Still today, the environmental consequences of Yacretá raise objections with regard to its impact on adjacent forests, pasture lands, fisheries and resettlement. In October 1996, a group of NGOs brought up the environmental consequences of the Yacretá dam for review under a newly created inspection panel for the World Bank and Inter-American Development Bank.

The other side of the coin to this zero-sum game was the bilateral cooperation between Uruguay and Argentina. The history of environmental accomplishment between the two countries goes back to 1969, when they signed the Treaty of the River Plate and Its Seashore. It was the first time that countries on the River Plate basin came together, not merely for a damage limitation exercise but with a constructive agenda: to preserve shared water resources of mutual interest. The accord made each party responsible for “protecting and preserving aquatic surroundings, and especially for preventing pollution” (Article 48). It also adopted the principle of shared responsibility for any polluting activity in the River Plate (Article 78) and banned “the release of hydrocarbons”. In 1975, Argentina and Uruguay continued their record of cooperation and agreed to build the Salto Grande
The dam stands out as one of the few large hydroelectric development projects in the world for which environmental effects were carefully investigated and anticipated. The environmental qualities of Salto Grande were recognized as exemplary by the UNEP.

When Brazil and Argentina were pulled apart by power conflicts, the environment was the principal arena in which these disputes were acted out. In such a context, the concept of shared resources is alien and unthinkable. The fight over environmental resources resulted in rigid and narrow positions. Only when these rivalries were overcome could the seeds of cooperation on the environment be sown. The waterway, once the arena of geopolitical competition, has become the backbone for physical integration. From being the source of conflict, it is now viewed as a valuable possession in the environmental patrimony. Only at this point, have agreed principles on how to preserve local natural resources become possible. Although a joint corrective action is still lacking, a "condominium approach" to preserve the shared patrimony is gradually taking shape.

PUBLIC POLICIES: ACHIEVEMENTS SO FAR

This section looks at the unfolding of environmental issues in Mercosur's institutional agenda. So far, these involve impact assessments of joint projects and efforts to define a common agenda. Today, new projects to further physical integration carry more careful and more co-operative impact assessments than in the past. But the common agenda has made progress inch by inch. At the time of drafting the Treaty of Asunción, the environmental agenda received some attention: several joint declarations were made, stating a commitment to sustainable development and reconciling the goals of growth and efficiency with improved environmental protection. But after a fast-start the environmental agenda dragged behind.

Joint Impact Assessment of Infrastructure Projects

Improvement of weak transport links is seen as vital for economic integration to proceed. The Paraná–Paraguay waterway, historically the terrain of conflict, is now considered the connecting tissue of Mercosur, contributing to geographical integration. There is a project to improve navigation along the path of the waterway so as to allow for a larger flow of maritime freight extending to over 3,400 kilometres.
The Paraná–Paraguay waterway project is not immune to the conflicts that have historically characterised similar projects. It has been opposed by local communities and NGOs. An important part of the project consists of changing the direction of rivers to speed up navigation. This is expected to have an important negative impact on the local ecosystem, causing floods and droughts as well as the resettlement of local indigenous and rural communities. The major concern is the effect such an endeavour would have on the Brazilian Wetland, one of the richest bio-diversity areas in the world.

Such fears expressed by civil society were echoed by a 1996 report by a specialists review panel, which convened to examine the technical and economic feasibility and the environmental impact assessment of the Hidrovía. The panel examined the report of the consultants hired to carry out the environmental impact assessment of the project, and came to devastating conclusions about the project’s feasibility. Arguing that the existing evidence is insufficient to ascertain that the potential impact of the Hidrovía is negligible, as the consultants claimed, the panel emphasised that the potential for long-term impact on the floodplain ecosystems had not been adequately addressed. Also, it stressed that while the key ecological impact of a project of this nature is the long-term effect on floodplain habitats, the consultants failed to analyse changes in floodplain inundation.

The environment has become a major concern when considering the project’s feasibility. Agreement between the five countries involved has been difficult to reach, owing both to the massive investments the plan would require and to its potential environmental and social impact. For the first time in the history of the region, environmental costs are lined up with financial and other considerations when looking into the feasibility of a project with potential economic benefits. No final conclusions have yet been reached on how to harmonise the potential economic benefits and the possible social and environmental effects of the project.

Three possible scenarios are under consideration. The first refers to making navigation possible from the start of the course, which would involve deep dredging, the extraction of the bedrock and the straightening of river bends. This alternative is highly controversial, because it is expected to cause important changes to the Brazilian Wetland, possibly drying it up in forty years’ time and, in turn, leading to droughts and floods in the region. The second involves increasing navigation only up to the edge of the Wetland, in order to avoid going through it. This alternative would still imply taking away a large part of the bedrock in Porto Murtinho, and it might have a similar effect on the Wetland as that
described above. The third considers the possibility of calling off large engineering projects on the Wetland, so as to mitigate direct environmental impact as well as overall costs.

The very scope of the plan, which involves massive investments, coupled with concern about its environmental and social impact, has raised doubts about its ultimate feasibility. If at all, the third scenario is the most feasible of the three. Financial and environmental costs make agreement between the five countries involved (the full Mercosur members plus Bolivia) difficult to reach. While President Wasmosy of Paraguay has been quoted as saying he has a vision of a “Mississippi that will not freeze”, Brazil and Argentina, which have no lack of Atlantic seaports, are less enthusiastic.

Yet impact assessments, while necessary, constitute preventive exercises of potential negative effects of projects in the pipeline. Sound environmental protection also calls for the development of a positive agenda. Mercosur’s work in that direction, as we show in the following section, is ambitious, but still remains embryonic. The customs union is still far from achieving the environmental goals outlined by member countries at their first joint declaration on the issue in 1992.

The Environmental Agenda

Although pronouncements on environmental preservation are constant, work on a positive agenda has so far been modest. The environment has been a side-issue to the major efforts concentrated on the development of a trade agenda. Declarations of intention have not yet materialised into actual deeds, although references to the concept of sustainable development, and the need to make it an important goal for the group, have been routine among Mercosur member countries.

The environment was specifically mentioned in the introduction to the Asunción Treaty, which set the framework for the preparation of Mercosur in 1991. The agreement emphasised that regional integration helps enlarge national markets through “the most efficient use of available resources, and environmental preservation”. It was also introduced when the trade liberalization schedule for the group was agreed at the 1992 Las Leñas Presidential Summit. However, at Las Leñas the environment was not included as an issue in its own right, with progress targets (unlike all the other topics on the negotiating table), but rather as the subject of recommendations to accompany the trade-related
schedule of commitments. The Las Leñas summit took a further step by creating the Specialized Meeting on the Environment (Reunión Especializada de Medio Ambiente – REMA), which was expected to sow the first seeds of an environmental agenda for Mercosur. Starting in November 1993, the REMA met five times in one year, and at that point the environment gained momentum for a while. The REMA was given the responsibility of analysing the environmental legislation of each member country. The group was expected to come up with specific suggestions on how to harmonise protection of the environment, and how to eliminate non-tariff barriers to trade applied for environmental reasons. Instead, it produced eleven non-binding directives.

If nothing else, the creation of the REMA opened up an institutional milieu for joint consideration of the environment. It gave the four countries an incentive to produce a joint statement to present at the Rio Conference on Environment and Development in 1992. The international status of the Conference allowed Mercosur governments to take up the opportunity to look beyond regional borders, and take a more global perspective on world environmental issues for the first time. As a result, Mercosur signed the Canela Declaration of 1992, prior to the Rio Conference on Environment and Development, which included statements on protection of the atmosphere, biodiversity, hazardous wastes, land degradation, forests, water resources, financial resources, international trade, marine environment, and strengthening of institutions to achieve sustainable development (FARN, 1995). Canela was a first step into a wider vision of the environment, a move beyond the “condominium approach” of promoting a partnership to take care of shared natural resources.

The official launching of Mercosur in 1995 gave the environment something of a new impetus. Building on this momentum, the environmental ministers of the four countries met that year for the first time at Taranco, Uruguay. The declaration resulting from Taranco was rather ambitious, considering both the intra-regional and extra-regional agenda. In terms of the intra-Mercosur issues, legal harmonization of environmental regulations was brought into the agenda for the first time as the main goal to be achieved in 1996. The Taranco declaration went even beyond the GATT–WTO agreement by stressing the need to harmonize production and process methods (PPMs) that might have an environmental impact on shared ecosystems, a process known in the jargon as the “reduction of asymmetries”. In terms of the extra-regional agenda, the ministers emphasized the importance of keeping a close eye
at the ISO 14000 negotiations to verify the possible effects these might have on the international competitiveness of Mercosur products. They also expressed their desire for agreement on a common strategy for international negotiations.

Beyond these long-term goals, the ministerial meeting at Taranco also took more immediate and practical measures. REMA was upgraded to become a technical subcommittee (TSC 6) in its own right within the structure of the Common Market Group, the executive organ of Mercosur (Hirst, 1992). This move was meant to allow the environment to acquire a higher profile, with the ultimate goal of making it an integral part of the agenda, but achievements have not been forthcoming and efforts lie dormant. The subcommittee’s initial steps were to put its house in order. It called for all environmental issues, which up to then had been scattered about in the work of other technical subcommittees, to be brought under its umbrella. Previous resolutions resulting from the work of those subcommittees, such as those concerning intra-regional transportation of hazardous goods, limits to vehicle emissions and vehicle noise levels, will now come under its aegis.

But scant progress, if any, has been achieved on this front. Legal harmonization of environmental regulations that was intended to be concluded by 1996 has not moved much beyond the environmentally-related resolutions already agreed in other technical subcommittees. Work was geared towards producing an Additional Protocol to the Asunción Treaty on the environment. The Protocol is just an expanded and more normative version of the basic directives. It contains further joint statements on the idea of establishing a Mercosur eco-label, the need to improve enforcement of environmental legislation in each member country, and the establishment of harmonized monitoring of regional environmental impact assessments. Approval of the Protocol by the four member countries and within each country by the government departments involved in the issue has been controversial due to substantial conceptual differences.

To sum up, then, Mercosur has allowed the “condominium approach” to come to the fore. Preventive joint-impact assessments are an integral part of this approach, based upon a shared effort towards sustainable development, but much remains to be done in a proactive fashion. Forward movement has generally come as an after-effect of closer political ties and trade liberalization, rather than as a conscious institutional effort, as is the case of joint impact assessments. While joint public policies for this condominium have yet to be developed, market forces have begun to operate.
MARKET DRIVEN DEVELOPMENTS

Beyond the institutional drive, trade liberalization and regional integration have brought natural trading partners together into a new pattern of trade and investment with environmental effects. Although these are still incipient and not well documented, some insights can be offered at this stage.

In certain cases, the resort to market-oriented policies may have spared countries some pollution problems by allowing the transfer of international environmental standards (Birdsall and Wheeler, 1993). A case in point is the upgrading efforts in Argentina's petrochemical and paper industries. Petrochemical firms are motivated by a concern not to be excluded from foreign markets. Local subsidiaries of foreign petrochemical firms are also transferring their more rigorous home standards. In the paper sector, pressure from customers in export markets has been an important factor influencing regional incorporation of clean technologies and sustainable production methods. The largest Argentine producer of tissue-paper has already launched a deep environmental restructuring program in Argentina due to pressure from its foreign partners (Chudnovsky et al., 1996).

The steel industry in Brazil and Argentina has undergone a similar process. More favourable macroeconomic policies, coupled with regional integration, served to spur restructuring. Exports soared in the last decade, forcing the largest firms to build new plants to respond to increasing foreign demand. These incorporated more modern environmental technology, but outdated production lines are still used to supply the less stringent environment standards of the local market. This dual production pattern is also evident in the leather industry. The Argentine leather industry is composed, on the one hand, of a few world-leading leather producers that sell mainly to international markets, and, on the other, by a larger number of smaller firms that respond to local market demands. While the first group of firms is responding to higher environmental standards abroad by investing in modern effluent treatment technology, most of the non-exporting smaller firms, in contrast, lack the financial means for such upgrading. The newly-born Mercosur trade relations will also contribute to environmental upgrading in this sector as Brazil's dynamic export-oriented shoe industry, an increasingly important market for Argentine and Uruguayan hides, feels the pressure to upgrade production processes to comply with eco-labelling initiatives abroad (see Motta Veiga, Chapter 4 in this volume).
But market-friendly policies have certain limitations. In some areas the increase in trading opportunities may be leading to specialization and production of pollution-intensive goods or to the intensification of unsustainable practices. The agricultural sector is a good example of how the shift in production patterns triggered by regional integration results in additional stress to the home environment if it is unchecked by counteractive policies. The increase in Brazilian regional demand for rice and blackbeans is a case in point. In the absence of a land conservation scheme, the expansion of blackbean production in Argentina’s north-west (especially in the province of Salta) and of Argentine and Uruguayan rice production is leading to deforestation. Deforestation, in turn, may cause a loss of bio-diversity and flora and fauna, and may destabilise water cycles and provoke soil erosion, among other effects (see Sáez, Chapter 2 in this volume). In these areas, both domestic public policies and joint institutional mechanisms are lacking, and public participation and community involvement are still very weak.

MERCOSUR AS A BUILDING BLOCK: THE AGENDA INTO THE FUTURE

Clearly, in Mercosur, the danger of the environment being a zero-sum game is no longer present. Yet at the same time, upgrading and a joint approach to natural resource preservation has not been high on the institutional agenda. There are several reasons for this. First, Mercosur is still in its infancy. There have been general statements about the importance of preserving natural resources in the region, and about the principles that should govern regulations in that direction, but these have yet to be operational. Second, the philosophy behind Mercosur is one of regulatory competition. The development of operational principles goes against this philosophy: it means narrowing the field of competition. In essence, the climate of cooperation has served to put a brake on the negative spillover effects of yesteryear, but there is no common agreement to act on the environment.

National environmental laws are a patchwork without a pattern. Political economy considerations, scant enthusiasm from certain sectors of society (such as business), and the relative weakness of environmental interest groups, may be the main obstacles to defining a positive agenda. Only timid efforts have been made to move beyond agreeing on general
directives that merely function as a rather lax framework for policy decisions. But so far the whole institutional configuration of Mercosur is far from being complete, and the capacity to enforce commitments lags behind. There are several key issues that are bound to arise sooner or later in the course of future negotiations. These issues can be grouped into two sets, the intra-regional ones and the extra-regional ones.

**Intra-regional Questions**

The question of incentives in the new regional context is perhaps the first priority. None of the Mercosur countries has yet adopted domestic rules for industry location from an environmental policy perspective. As a grouping, they will probably need to establish minimum environmental requirements for industrial settlement, together with the implementation of local impact assessments. But this will be a long-winded process, because the attraction of investment is the prime rationale behind the formation of Mercosur. It remains the greatest area of competition among member countries, and one in which competition rather than coordination will prevail for a while.

Recent research has suggested that environmentally motivated relocation of production from developed to developing countries is negligible (Low and Yeats, 1992). Overall, there is little evidence of any significant impact of environmental control costs on the pattern of trade and investment. This might be explained by the relative unimportance of pollution abatement regulations vis-à-vis other locational determinants, such as labour costs and productivity, access to raw materials, markets, and business climate. Hence, if the trade and investment effects are minimal then fears about competitiveness diminish. So, political economy considerations aside, there is less reason to delay strong environmental legislation and enforcement. Mercosur members, as a first step in this area, will need to make a commitment to solve the current lack of enforcement of existing legislation.

**Extra-regional Questions**

In extra-regional relations, three main issues stand out. First, as environmental policies get incorporated into the work of the WTO, countries have to build on their experience of collaboration in the Cairns
Group in the Uruguay Round of GATT (Tussie, 1993). Now that they are a customs union, they should be ready to articulate their interests and stand up with a single voice in negotiation in the WTO. As Mercosur, they should be ready to advance the trade liberalization agenda of the Cairns Group and to sustain the momentum to discuss the role of distorted agricultural policies on the environment. The reason for sub-optimal environmental standards in agriculture lies precisely in public policies in OECD countries that favour the over-exploitation of environmental goods and services. This is an area that Mercosur should push jointly in the Trade and Environment Committee of the WTO.

Secondly, countries need to get ready for agreements on tropical forest products. This is a sector in which disagreements have been most frequent in a North–South direction. Tropical forests, particularly in Brazil, are already under the lens. Mercosur members might have to agree on provisions for sustainable logging, which prima facie might not be difficult to reach, because legislation is very much alike in the four countries: similar classification standards, logging rules and limitations for private forests are used; similar reforestation mechanisms are in place; and similar fiscal and direct incentives are provided, as well as preferential loans for forest exploitation or conservation (FARN, 1995).

Finally, countries have not sat down to work out a treaty hierarchy among the international agreements to which they are party. In case of conflict between Mercosur rules and those adopted by international agreements, the signatories to both will have to agree on which will prevail. NAFTA, for example, lists three international environmental agreements, the Basel Convention on Transboundary Movement of Hazardous Wastes, the UN Convention on International Trade in Endangered Species (CITES) and the Montreal Protocol on Substances that Deplete the Ozone Layer. If there is an inconsistency between those agreements and the NAFTA, the obligations to the international environmental agreement shall prevail. Mercosur countries have individually signed international environmental agreements. All four countries have signed the Convention for the Protection of Flora and Fauna and of Natural Scenic Beauties (1940), the Convention on Wetlands (1971), the CITES (1973), the Vienna Convention on Protection of the Ozone Layer (1985), the Montreal Protocol on Substances that Deplete the Ozone Layer (1987), the Convention on Bio-Diversity (1992), and the United Nations Convention on Climate Change (1992).
CONCLUSIONS

The establishment of Mercosur has enhanced the climate for cooperation, but the window of opportunity for the environmental agenda remains unused. So far, Mercosur may be seen as a potential co-ordinating mechanism for environmental upgrading rather than as the upgrader itself. As in the EU, the initial motives for including the environment in the agenda of negotiations were mainly economic. The main goal of integration is to promote trade and investment, and the members of Mercosur have so far concentrated their attention in that respect. The potential environmental damage of competition for natural resources has been averted by a new climate of cooperation, but joint conservation efforts are still lacking. In fact, natural resources have begun to suffer the effect of rapid growth. There is evidence of deteriorating environmental quality in deforestation, soil degradation, unrestrained fishing and water pollution in coastal zones.

Openness per se has favoured upgrading in manufacturing. More and more, export markets are forcing locally-based producers to embrace higher environmental standards. The adoption of voluntary rules such as the ISO 14000 series, as well as technological upgrading to respond to outside standards, are seen by local exporting firms as essential elements for retaining access to international markets. In this respect, there are indications in several sectors of a dual pattern of production – one that is environmentally sounder for export markets and another that is more pollution-intensive for the domestic or regional markets. Generally speaking, this is also related to firm size. Market leaders have been able to adapt to a more environmentally sound performance, while small firms lag behind. The effect of environmental standard-setting on increasing barriers to entry and market polarization, both among and within countries, requires further empirical research if proper compensating mechanisms are to be designed. The political economy aspect of the debate in developing countries is overall a little-researched area, including the role of public opinion.

Mercosur has left the market to operate. It has not advanced much where public policies are required to provide the signals for firms to behave in an environmentally responsible way, particularly in forestry, fisheries, and land conservation, where joint public policies will be needed. Moreover, lax enforcement of environmental legislation in each of Mercosur member countries, coupled with a confusing grid of rules and regulations, may be one of the main obstacles towards reaching common ground in that area.
In spite of weak law enforcement and weak institutional stimulus, environmental improvement seems to be brought about by trading opportunities. This is the positive, albeit limited, contribution of market access. The interest of business in retaining market access appears to be more and more the go-between for resolving the tension between trade and the environment. Mercosur itself has done little to take corrective action. In the longer term, however, a catalysing force in this regard may still come from the agenda of current broader regional integration negotiations to create an FTAA. So far, Mercosur has worked on trying to define environmental affinities and on the establishment of agreed principles, however broadly defined. The next step will be to start narrowing down principles into policies and the acceptance of cooperative monitoring mechanisms to make policies enforceable. That process may not be devoid of obstacles. Moving beyond these will be one of Mercosur’s main challenges for the near future, and proof of its stability.