

WORLD COMMISSION ON ENVIRONMENT AND DEVELOPMENT

SIXTH MEETING
Harare, Zimbabwe
September 15 - 20, 1986

WCED/86/21

MEMORANDUM

TO: All Members of the World Commission on
Environment and Development

FROM: Nitin Desai, Senior Economic Advisor

DATE: 3rd September 1986

RE: SIXTH MEETING OF THE COMMISSION

Attached please find a draft of the following:
CHAPTER 11: INTERNATIONAL ECONOMIC RELATIONS,
ENVIRONMENT AND DEVELOPMENT

The present draft has been prepared by Commissioner Ramphal. Due to the lack of time, the Group of Commissioners set up at Oslo to look into this chapter has not met to discuss this draft. However some comments received from one of the members of the Group, Commissioner Stanovnik, have been taken into account.

The direction of the Commission is sought particularly with regard to the following:

- (i) The approach to debt management (Para 26)
- (ii) Recommendations regarding automatic financing (Para 38)
- (iii) The principles of raw material pricing (Para 43)
- (iv) Sustainable development as an objective in trade negotiation (Para 60)
- (v) Home-country standards and technology exports (Para 66)

Action Required:

Discussion and Direction

INTRODUCTION

The Links Between the International Economy, the
Environment and Development.

THE CRISIS OF THE 1980s

The Critical Situation in sub-Saharan Africa
The Debt Crisis

AGENDA FOR ACTION

- (1) Flows of Resources to Idcs
- (2) Trade Issues:
 - Commodity Trade
 - International Trade in Manufacturers
 - Exports of Banned Chemicals
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THE FUTURE TOWARDS THE YEAR 2000

CHAPTER 11

INTERNATIONAL ECONOMIC RELATIONS ENVIRONMENT AND DEVELOPMENT

INTRODUCTION

1. We have argued that it is not possible to deal with the world's major environmental problems in isolation from problems of poverty and underdevelopment. This link between environment and development has a crucial international dimension.

2. Over the ages people have traditionally reached beyond their own borders in quest of essential, valued or simply exotic materials: a history of exploitation picturesquely depicted in the opening lines of Masfield's poem 'Cargoes':

Quinquireme of Niniveh from distant Ophir
Rowing home to haven in sunny Pal
With a cargo of ivory,
And apes and peacocks,
Sandalwood, cedarwood, and sweet white wine.

Today, with surer communications, easier travel, and larger trade and capital movements, the entire process has grown in scale and quickened in pace. And one feature of this growing interdependence in the world economy is that it continues to have far reaching ecological implications.

3. For such a process of international economic integration to be generally beneficial two particular conditions need to be satisfied. One is the long-term sustainability of the various ecosystems on which the global economy depends. Another is acceptance by economic partners that the basis of exchange is equitable. For many developing countries neither condition is met. Relationships that are thus essentially unequal and sustained by dominance of one kind or another really cease to be truly 'interdependent'. When we speak of 'interdependence', it is important to remember this qualification.

4. Such economic and ecological interdependence has grown in a context of large inequalities in levels of development and economic strength of nations. A general and widespread improvement in living standards has taken place only in the developed and a few developing countries and the bulk of the world's population live in countries where poverty, rural deprivation and urban squalor are widespread. This imbalance is compounded by an asymmetry in international economic relations, with developing nations being influenced by but not being able to influence, the international economic environment. Moreover, because of poverty, developing countries face greater pressures on the environment and have less capacity to withstand or compensate for them. The result is far greater environmental degradation at their end of the international economic spectrum.

The Links Between the International Economy, the Environment and Development

5. International economic interrelationships pose a particular problem for environmental management in poor countries since exports of natural resources remain a large factor in their economies, especially in the case of the least-developed. Agriculture, forestry, energy and minerals generate at least half the GNP in many developing countries and

account for even larger share of livelihoods and employment. In most developing countries there are economic pressures, both international and domestic, of such intensity that the natural resource base is frequently not managed for sustained production. At present, the pressure on many developing countries to maintain onerous debt service by exporting ever higher volumes when commodity price are depressed is leading to an acceleration of environmental deterioration and resource depletion; relentlessly reducing the potential for long-term development.

6. One example is provided by tropical deforestation caused, among other factors, by the trade in tropical timber. As documented in earlier chapters, such deforestation is claiming an area the size of Denmark annually, resulting not just in the depletion of the resource that underpins world trade in timber, but also in the loss of forest-based livelihoods, in soil erosion and downstream flooding, and in the disappearance of species and genetic materials. Deforestation can also contribute to regional and global climate change, resulting in significant shifts of principal agricultural zones. Indeed, its effects ripple through the economy, touching sector after sector, disrupting water supplies and adversely affecting the lives of millions of people.

7. International trade patterns also help to explain the unsustainable development policies and practices that have steadily eroded the crop and rangeland base in arid and semi-arid regions of Asia and Africa. Moderate to severe desertification affects 60 per cent of the productive lands in these regions and the phenomena is accelerating. There are many countries where erosion has reduced agricultural potential by 50 per cent or more. Where international economic pressures exist to cultivate marginal land in order to earn scarce foreign exchange the problem is aggravated.

8. These examples drawn from trade in raw materials represent an obvious and direct way in which the working of the international economy impact on the environment. Others are less obvious but no less real. Poverty lies behind the destructive encroachment of peasant farmers and nomadic herdsman on marginal land and adds to the squalid congestion of urban slums. And, while the relief of poverty lies primarily in mobilising domestic resources for development, an ability to mobilise savings from rich countries is also crucial: in the form of concessional aid to low-income developing countries, and commercial flows (loan and foreign investment) to others. There are some very worrying trends in this regard. Resource flows to developing countries have fallen in real terms and, for some, the net flow has become negative: that is, there is actually an outflow. The expected level of international capital flows to developing countries over the rest of the decade is only half that which is necessary to restore growth in developing countries to levels where a reduction in poverty levels can occur. If flows of capital do not materialise, the prospect for any growth in living standards is poor. An inevitable consequence will be intensified pressures from poor people to ensure their own survival in the short run through means - such as farming marginal areas and cutting trees for firewood - which destroy the environment. In this way long-term development becomes much harder and in some cases impossible. Moreover the whole biosphere could eventually be undermined, adding adverse climatic change to existing development problems.

9. This is not to say that a mere increase in flows of capital to developing countries will inevitably contribute to development. Increased flows must occur in ways that are sensitive to their environmental impact. The essential lesson is that the reduction of poverty itself is a pre-condition for environmentally-sound development, and substantially improved resource flows - both qualitatively and quantitatively - from rich to poor countries are necessary for that to be achieved.

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THE CRISIS OF THE 1980s

10. In developing countries, the pressures of poverty and rising populations create, even in the best of circumstances, enormous difficulties for those trying to pursue environmentally-sound policies. When international economic conditions are bad, the problem can become unmanageable. During the eighties, for example, economic growth rates declined sharply or turned negative in many developing countries, particularly in Africa and Latin America. Over the five years 1982 to 1985 a majority of developing countries experienced economic growth which was less than the rise in population.

11. Deteriorating terms of trade, rising debt-service obligation, stagnating flows of concessional finance and growing protectionism in the developed market economies led to severe external payment problems. Many developing countries also experienced a crisis of indebtedness resulting from the increased cost of external borrowing at a time when exports were depressed. Austerity programmes added to an already serious crisis, often arising from conditions laid down by the International Monetary Fund as a prerequisite for extending credit to meet short-term balance of payments needs. In the process, many social objectives fell by the wayside, including those having to do with employment, health, education, environment and human settlements.

12. We thus have a situation which affords a radically different perspective from that given by the events of the 1960s and 1970s. Then it was rapid economic growth which was seen as an ecological threat; now it is the opposite: recession, austerity and falling living standards. There are several specific ways in which this crisis of the 1980s has had negative implications for the environment:-

- * Pressures to expand primary commodity exports can lead to increased deforestation and to expansion of cash cropping on available good land, thus further marginalizing rural poor, forcing them to poorer, erosion-prone land.
- * Austerity measures and general recessionary conditions have also led to sharp declines in per capita incomes and increases in unemployment. This puts more pressures on the natural resource base as more people rely directly on it.
- * Austerity measures inevitably include government cutbacks in both staff and expenditure. These cuts fall disproportionately on fledgling, weak environmental and conservation agencies and programmes, undermining even the minimal efforts being made to bring ecological considerations into development planning and projects.
- * Conservation always takes a back seat in times of economic stress. As economic conditions have worsened in developing countries, and as debt pressures mount, there has been a tendency to ignore environmental planning and conservation measures in both industrial and rural development projects

13. While there are general arguments we believe detailed attention should be paid to the critical situation in sub-Saharan Africa and in the debt-affected countries of Latin America. These cases demonstrate, in an extreme way, the negative influences which unreformed international economic arrangements are bringing to bear on both development and the environment. They highlight the problems which must now be overcome.

The Crisis in sub-Saharan Africa

14. Africa, south of the Sahara, has been caught up in a series of downward spirals:

- poverty and hunger leading to environmental degradation, deteriorating agriculture, and more poverty and hunger;
- growing poverty leading to falling savings and a neglect of new investment;
- high infant mortality, poverty and lack of education sustaining reluctance to reduce the birth rate, and excessive population growth leading to more poverty;
- a flight from rural hunger to the cities leading to greater attention to the needs of cities and less to those of the countryside;
- and, so, more hunger.

The story is not everywhere so bleak: there are some success stories; and some far-reaching and courageous policy reforms in the last few years have begun to bear fruit. And there is much encouragement to be derived from South Asia where a comparable state of crisis 20 years ago has given way to a virtuous circle

of rising food production, diminishing (but still vast) poverty, slowing population growth, rising savings and investment, and greater attention to the long-term questions of environmental management and appropriate technology.

15. While there are several factors underlying the African crisis, a large role must be attributed to the workings of the international economy. To a much greater extent than for low-income Asia, Sub-Saharan Africa's economic well-being hinges on developments in the world economy. Within the last decade, many sub-Saharan countries have been hit by a combination of seriously adverse trends in commodity terms of trade and external shocks represented by higher oil prices and higher interest rates. In 1985, the terms of trade of sub-Saharan countries (excluding Nigeria) were 10 per cent below 1970 levels and, in IDA-eligible countries the average fall was well over 20 per cent and much more for some, including Zambia, Sierra Leone, Ethiopia, Zaire and Liberia. Over the last decade the prices of several major commodities such as copper, iron ore, sugar, ground-nuts, rubber timber and cotton have fallen significantly (in absolute terms) at a time when manufacturing and (until 1986) oil prices were rising.

16. The problem has been compounded by the growing difficulties of attracting capital, especially concessional flows, from the developed world. The decline in commercial bank loans to the region - especially important in the case of Nigeria and Ivory Coast - and in officially-guaranteed export credits, together with rising loan repayments and interest charges have led to a situation where net financial transfers from loans and grants fell from an estimated \$8 bn a year in 1980-82 to a projected \$1 bn over the period 1985-87. In consequence there has been a severe contraction in import capacity. In IDA-eligible countries the import volume per head in 1984 was only 62 per cent of that in 1970. Among the cutbacks have been imports of basic agricultural inputs - machinery, fertilisers and pesticides - and essential supplies

to meet basic social needs. Some countries have tried to resist import contraction through external borrowing on commercial terms, where such finance has been available. The result is that debt repayment is now a major element of the economic crisis in sub-Saharan Africa. For Africa as a whole debt service rose from 13 per cent of exports in 1980 to 32 per cent in 1985. The burden is such that during the last five years, only 15 out of 44 African countries have been able to service their debt without incurring heavy arrears or rescheduling. The combination of adverse international and internal factors cut per capita GDP by 16 per cent in sub-Saharan Africa in five years after 1980.

17. The economic difficulties of sub-Saharan countries have had a devastating impact on social conditions. Declining per capita food production has contributed to growing undernourishment: 100 million in 1979 (and a much larger total now) from 80 million a decade earlier. Malnutrition and hunger have weakened much of the population (especially the young and elderly), making them more susceptible to debilitating diseases and premature death and reducing their productivity. The crisis has led to reversals of progress in addressing environmental problems like the lack of safe drinking water and sanitation. Growing poverty has also aggravated population pressures as high mortality rates generate a preference for large families; this leads, in turn, to urban squalor and increased vulnerability to natural disasters.

18. Over the past decade, growing hunger, poverty and environmental pressures have led to a series of catastrophes. The margin of safety required to cope with natural disaster, like droughts or floods, does not exist and what in a rich country could be managed with food or foreign exchange reserves becomes, in these poor countries, an unmanageable emergency. Vulnerability is reflected as well in an inability to persist with sound long-term policies in the face of such natural disasters or short-term economic fluctuations. Thus, quick

gains in food production or of exportable crops and minerals are sought even at the cost of long-term environmental damage. In a number of countries, past farming practices which allowed land to lie fallow have been abandoned because of pressure on land; and when over-cropping has occurred, it has had serious consequences for soil fertility. Over-grazing has been another serious problem. The extension of cultivation and grazing onto unsuitable or highly marginal land has accelerated soil erosion, which is being further accentuated by the deforestation caused by the growing demand for fuel-wood. The subsequent ecological changes have led to a fall in water-tables and gradual encroachment of near desert conditions, most markedly, but by no means exclusively, in the Sahel countries.

19. The environmental problems which have arisen from poverty and vulnerability can only be tackled by attending to the causes rather than the symptoms. This can be starkly in sub-Saharan Africa, particularly in the Sahel region. The vast misery brought on by the drought in Africa is now widely known and the world community has responded with a substantial emergency programme. But emergency food aid is only a short-term reaction to a drought and special programmes to control the spread of the desert are, at best, a partial answer. The roots of the problem lie in national and international policies which have so far prevented African economies from realizing their full potential for economic expansion and, thus, for easing poverty and environmental pressures which that poverty generates.

20. While the resolution of the problem lies in large part with African decision-makers, a heavy responsibility rests also with the international community to improve concessional flows and trade arrangements and to stop reverse financial transfers. The World Bank estimates that, even if the external economic position is favourable over the next five years and even if African governments apply themselves fully to policy

reforms, there will be a gap of \$2.5 bn a year between the finance or debt relief available on current donor policies and pledges needed to prevent low-income Africa slipping further back in terms of living standards. And this sum does not begin to address major outlays required to restore a damaged environment.

21. The Commission regards it as essential:

- first, that the international community recognise that the African crisis - the most serious economic and ecological crisis on the planet - cannot even begin to be addressed satisfactorily without concessional resources on far greater scale than currently envisaged;
- second, greatly increased external financing for development has to be accompanied by policy changes recognising the necessity to avoid environmental degradation.

The Debt Crisis

22. While debt has been an important ingredient in the crisis of poverty and hunger in sub-Saharan Africa, it is in some of the middle-income countries, in Latin America especially, that the debt problem has been greatest in absolute terms and has had the greatest impact on the global economy and on the process of development, both in its economic and ecological aspects. Of the total world debt of around \$950 bn in 1985, roughly 30 per cent is accounted for by four Latin American countries - Brazil, Mexico, Argentina and Venezuela - and these countries account for roughly two-thirds of the gross exposure of banks to developing countries.

23. In the 1970s, Latin America grew by around 5.5 per cent per annum, well above the growth of population. This growth was facilitated by external borrowing, which doubled, in relation to exports, over the decade from 1973/74 to 1983/84. Commercial lenders were happy to lend to countries rich in natural resources and with a record of growth. In the event, a drastic change in international conditions made the debt unsustainable. Global recession restricted export markets and tight monetary policy forced up global interest rates to levels far exceeding any in living memory. Bankers, alarmed by deteriorating credit-worthiness, closed their lending windows. A flight of indigenous capital compounded the problem.

24. The ensuing crisis forced governments into austerity policies to cut back imports. Indeed, such austerity was a condition for IMF emergency credit. As a result Latin American imports fell by 40 per cent in real terms over three years. The consequent economic contraction reduced per capita GDP by an average of 8 per cent in the eight main Latin American countries (from the peak in the early 1980s to 1986) and by 13 per cent in Mexico and 17 per cent in Argentina. Much of the burden was carried by the poor in reduced real wages and rising unemployment. In every major Latin American country there are, as a consequence, visible signs of growing poverty and deteriorating environmental conditions.

25. But this was not enough. The lack of new credit and the continuing burden of debt service forced countries in the region to service their debts by running trade surpluses; the net transfers from seven major Latin American countries to creditors rose to almost \$39 bn in 1984; and in that year 35 per cent of exports went to service interest on overseas debt. Economic growth is being restored in some Latin American countries through rapid export growth, the proceeds of which go

abroad to service debt. A substantial part of the exports are raw materials, food and resource-based manufactures. In effect, Latin American natural resources are being used not for development and to raise living standards, but to meet the financial requirements of rich country creditors. The sustainability of this approach to the debt problem must be questioned from a variety of standpoints: economic, political and environmental. To require relatively poor countries simultaneously to curb their living standards, accept growing poverty and export growing amounts of scarce resources for the purpose of maintaining external credit-worthiness reflects a set of priorities few democratically-elected governments are likely to tolerate for long.

26. A continuation of the present situation is contrary to the interests of all, including the lenders. A variety of measures are under discussion including additional new lending, forgiveness of part of the debt and conversion to softer terms but a necessary sense of urgency is lacking. The Commission urges the various debt relief measures be promptly devised and implemented bearing in mind the dangers facing countries with a precarious environmental and resource situation.

AGENDA FOR ACTION

27. For many years developing countries have sought fundamental changes in international economic arrangements particularly in the areas of financial flows, trade, multi-nationals and technology transfer. Many of their arguments have enduring validity but they need to be recast to reflect the importance of the ecological dimension, frequently over-looked in the past.

(1) THE FLOW OF RESOURCES TO DEVELOPING COUNTRIES

28. Two interrelated concerns lie at the heart of our recommendations: one relates to the quantity, the other to the 'quality' of resource flows to developing countries. We believe that the question of larger quantities of resources cannot be fudged. The idea that developing countries would do better to live within their limited means is a cruel illusion. Global poverty cannot be reduced by the governments of mostly poor countries alone. At the same time, however, a larger quantity of financial flows while necessary, is not enough. Projects and programmes must be designed in the light of long-term sustainability considerations including those related to the physical environment. The question of 'quantity' and 'quality' are related. The larger the flows the greater the incentive for recipient countries to make what can be politically difficult domestic policy changes.

29. As regards the quantity of resources, we have already seen how the stringency of external finance has contributed to an unacceptable decline in living standards in two important groups of developing countries. Recent estimates have been made by the United Nations Committee for Development Planning of the scale of resources needed for the future. A developing country growth rate of 5 per cent over the next decade is considered the bare minimum - even at this level unemployment grows in Latin America. In aggregate terms, it is estimated that there will be a large 'financing gap' in the future; to meet it, development finance would need to be doubled from currently projected levels.

- * The major debtors need large sums - an extra \$20 to \$25 bn a year by 1990 - mainly on commercial terms, to permit higher growth and reverse negative net transfers, in conjunction with far reaching economic reforms. This would require substantial bank lending supported by the multilateral development banks.
- * For low-income Africa, the best estimates of the World Bank for sub-Saharan Africa show an annual gap of \$2.5 bn in concessional finance for the next five years between the resources required and those in prospect. This finance could come through a combination of a greatly expanded IDA, bilateral ODA and wider debt relief. Such a programme, it must be stressed, is absolutely minimal - it merely restores imports to 1980-82 levels - and is based on optimistic assumptions about the world economy. There are growing fears that in the absence of such flows the present faltering steps to policy reform will atrophy.
- * While the attention of donors is naturally concentrated on the countries in greatest crisis, this must not be at the expense of other low-income countries which have made impressive progress in recent years but face immense problems, not least in countering the environmental degradation brought about by continuing massive poverty. Low-income Asia needs continuing large concessional flows, as well as growing amounts of commercial capital if it is to be prevented from sliding into a serious debt problem and if it is to maintain level of growth which offers the prospect of significant poverty reduction.

30. To meet such needs requires a re-examination of existing policy by the main donors and lending institutions. ODA levels have stagnated in absolute terms and the majority of donor countries fall well short of the internationally-agreed targets. By contrast, the above programme implies a need for 3 per cent real growth in official lending, mainly concessional, and channelled through multilateral institutions, in particular the IDA. Increased commercial bank lending is also necessary for major debtors.

31. If additional flows are to contribute to development which is environmentally sound then action is also required in the following fields:

* Adjustment policies

32. Hitherto, 'adjustment' has been a euphemism for cutbacks in living standards in the interest of financial stabilization. There is a growing recognition - implicit in the so-called 'Baker Plan' - that in future adjustment should be 'growth-oriented'. It also needs to be environmentally sensitive. Specifically, "conditionality" imposed by the multilateral development banks other lenders and the IMF should seek positively to enhance those institutions and programmes concerned with the management of the resource and environmental base. At the very least, these programmes should be exempt from the budget axe. World Bank structural adjustment lending and other policy-oriented, non-project, lending could be linked to policy changes that counter degradation of natural resources. Among the policy changes that could move developing countries towards more sustainable use of natural resources and more sustainable fiscal balance are the elimination of price distortions and subsidies that encourage wasteful exploitation of forest, water and energy resources.

* Aid targeting

33. A larger portion of total development assistance could go to meet investment needs related to enhancement of the environment and the productivity of the resource sectors, such as: reforestation and fuel-wood development, watershed protection, soil conservation, agro-forestry, bioenergy, rehabilitation of existing irrigation project, small-scale agriculture, and low-cost sanitation measures. Experience has shown that the most effective projects of this type are small-scale projects with maximum 'grass roots' participation. A major new plan to counter the negative forces of deforestation has recently been developed jointly by the World Bank, the United Nations Development Programme and the World Resources Institute. Such projects, provided on a concessional basis, are justifiable on grounds of ecological interdependence as well as humanitarian grounds since - if ODA helps to promote the conservation and better management of tropical forests, environmentally sound agricultural growth, resource-efficient energy development and similar policies in developing countries - it will generate global benefits.

34. A reorientation towards projects of this kind would, however, require donors to re-examine the content of their aid programmes, particularly with regard to commodity assistance, which has often served to reduce rather than enhance the possibilities for sustainable development. The programmes most directly related to the objectives of sustainable development may well involve a high content of local cost, a different ratio of recurrent to capital costs and a greater use of local technology and expertise.

* Environmental Assessment

35. As this report has demonstrated, the wrong kind of projects can undermine the basis for future development. It is essential that all new investment be designed to enhance the positive and reduce negative feed-backs from the ecosystems on whose sustainability it depends. Traditional forms of environmental assessment are not sufficient for this purpose. They need to be broadened to embrace "sustainability assessment". The intent would be to determine whether and how an investment can be made both economically and ecologically sustainable taking into account the positive and negative relationships between the two. Such assessments need to be extended to all ODA-supported investments that have a major impact on neighbouring countries and on the global commons.

36. These assessments have to be undertaken at the earliest possible stage to avoid long and costly delays, which usually end up frustrating unnecessarily the purpose of the assessment. They, therefore, have to be required of the economic agencies initiating the investment, and not of some 'after-the-fact', 'add-on' environment agency or group.

37. To meet the requirement, the multilateral development banks, development assistance and export credit agencies should introduce or sharply upgrade their capacity to assess their policies and projects in co-operation with recipient countries. At the same time, they should introduce new programmes aimed at significantly upgrading the capacity of recipient countries to manage their environment and resources.

* Automaticity and Conditional Resource Flows

38. It might be argued by decision-makers in developing countries that new forms of conditionality, for adjustment and more careful environmental assessment, create yet more external leverage over resource flows to add to the already considerably amount of political, commercial and policy-tying of funds. We stress therefore the necessity for parallel changes in another direction. Official development assistance necessarily rests on voluntary contribution made by donors. Even when donor governments are strongly committed to providing more assistance, the exigencies of domestic budget management and other pressures can lead to substantial shortfalls relative to targets and, more important, to genuine requirements. In this situation a measure of automatic financing of international action on environmental and developmental matters would help greatly. The various possibilities which need to be considered are dealt with at greater length in the Chapter on the Need for International Co-operation.

(2) TRADE ISSUES AND ENVIRONMENTALLY SUSTAINABLE
DEVELOPMENT

39. The link between trade and environmentally sustainable development is most obvious in the case of primary commodities. Here the major issues relate to the question of how developing countries can best use commodities as a source of foreign exchange earnings so as to reconcile economic with ecological concerns. But there are other important, if less obvious, links; for example, if protectionism acts as a barrier to manufactured exports, the scope for diversifying from traditional commodities is reduced. Or, to take another example, as they trade in toxic and potentially polluting materials, developing countries increasingly face environmental costs.

International Commodity Trade

40. Although a growing number of development countries have diversified into manufactured exports, primary commodities other than petroleum continue to account for more than one-third of the export earnings of the developing countries. The dependence on primary commodity exports is particularly high in Latin America (52 per cent) and Africa (62 per cent). The countries recognised as least-developed for the U.N. special programme depend on primary commodities for 73 per cent of their export earnings and, what is as important, their dependence on this source has not decreased.

41. Commodity prices fell during the early eighties, not only in real but also in nominal terms. By early 1985, the UNCTAD commodity price index was 30 per cent below the 1980 average. According to UNCTAD estimates, the loss in export earnings of developing countries from the fall in non-oil primary commodities amounted to as much as \$50 bn in 1985. The loss was particularly heavy for African countries where it amounted to nearly three-quarters of the value of African's commodity exports in 1980.

42. What is particularly significant about the recent weakness of commodity prices is that it may be structural rather than cyclical; commodity prices have not recovered from the depth of the world recession despite increased economic growth in consuming countries. This structural factor could be partly technological - an acceleration in raw material substitution: partly monetary - caused by the high cost of holding stocks; and partly due to the big increase in supply by countries desperate to earn foreign exchange. Such countries are turning the terms of trade against themselves, earning less for greater quantities exported. Promotion of increased volumes of commodity exports has led in some cases to unsustainable pressures on the natural resource base. In a number of instances, if current practices continue, the

implication is that by the turn of the century, or sooner, the development potential of natural resources in many areas will be greatly reduced.

43. Unstable revenue from commodity exports and secularly declining terms of trade have both contributed to this situation. Moreover, the prices of commodity exports have not reflected the environmental costs of sustainable uses of these resources. In a sense, developing countries subsidize importers of their products, incurring important short-term and especially longer term costs to themselves and their environment.

44. In recent years, developing countries have sought to increase their gains from commodity exports by undertaking the first stage processing of raw materials domestically. This first stage often involves subsidised energy inputs, other concessions and substantial pollution costs. But developing countries often find that they do not gain much from this capital and energy intensive first-stage processing, as the price spread shifts in favour of down stream products which continue to be manufactured mainly in the developed countries. The tariff policies of the developed market economies tend to reinforce this tendency.

45. The principal international response to commodity problems has been in the negotiation and implementation of international commodity agreements, which aim to stabilize and maximize the earnings of developing countries from primary product exports. In practice, progress has been very limited. Moreover, environmental sustainability considerations have not played any part in commodity agreements, with the notable exception of the recently concluded International Tropical Timber Agreement.

46. The Commission is aware that commodity agreements have not been easy to negotiate, and that regulation of commodity trade has been a notoriously controversial and difficult issue in international trade. Without entering into the technical economic issues, the Commission feels that current arrangements could be improved in two crucial respects:

- * larger sums for compensatory financing, would be an incentive to producers to take a long-term view, and not to over-produce commodities where production is close to the limit of environmental sustainability during periods of market glut.
- * where producers need to diversify from traditional, single crop, production patterns more assistance could be given from diversification programmes. And the second window of the Common Fund could be used for promoting resource regeneration and conservation.

47. Individual governments can improve the developmental use of renewable resources like forests and fisheries by re-examining and, if necessary, negotiating modifications in lease terms to ensure (a) that the rate of exploitation stays within the limits of sustainable yields; and (b) that finances are available for resource regeneration and for dealing with all linked environmental effects.

48. In respect of non-renewable resources, they should re-examine and, if necessary, negotiate modifications in lease terms to ensure (a) that the leaseholder undertakes an adequate degree of exploration effort aimed at adding to proven reserves at least the amounts extracted; (b) that the production to proven reserve ratio is kept below a pre-specified limit;

(c) that the funds generated by royalties are employed so as to be able to compensate for the declining income when the resource deposit is exhausted; and (d) that the leaseholder is responsible for land restoration and other environmental control measures in the area affected by mining activity;

49. In order to facilitate this, governments should also request relevant international organizations such as the UN agencies, the World Bank and the Commonwealth Secretariat to develop model contracts and guidelines incorporating these principles. Stricter control over resources development would frequently need to be integrated with programmes of assistance for diversification.

International Trade in Manufacturers

50. For developing countries, an issue of growing importance is the increase in protectionism in industrial countries, which stifles their export growth and prevents a diversification from traditional exports of raw materials. The success of some Far Eastern developing countries in achieving a rapid growth of labour-intensive manufactured exports has demonstrated the potential which such trade has for development. However, other countries - especially low-income Asian and Latin American countries - seeking to follow the same route have found themselves severely handicapped by growing trade barriers, especially in textiles and clothing.

51. While most developing countries are likely to find their comparative advantage in trade increasingly in the form of labour intensive manufacturing processes - to the extent that protectionism does not prevent them - others are developing industries based on natural resource processing where the raw material extraction and/or processing can have high environmental costs. Examples are pulp and paper, petrochemicals, alumina and aluminium. At present, there is a difference between the way in which developed and developing

countries have been able increasingly to internalise the damage costs of environmental pollution and to reflect the cost of the related control measures in the price of products they sell. In the case of export products, these costs are paid by consumers in the importing countries, including those in developing countries.

52. Developing countries, on the other hand, have by and large not been able to internalise the costs of environmental damage. These costs, therefore, continue to be borne entirely within their border largely in the form of damage costs to human health, property and ecosystems. As a consequence, the price at which their output is supplied to the major importing nations is currently significantly below that which would prevail if they were able to internalise the environmental and resource damage cost associated with its production. According to a study conducted for the Commission, in one year, 1980, the industries of developing countries exporting to OECD countries would have incurred direct pollution control costs of US\$5.5 billion, if they had been required to meet the environmental standards prevailing in the US. These costs would have been incurred hypothetically by the industry producing the final product. If the pollution control costs associated with the inputs that went into the final product were also included, the costs would rise to US\$14.2 billion. The evidence also suggests that OECD imports from developing countries involve products which, on average, impose higher environmental and resource damage costs than does the overall structure of OECD imports.

53. The hypothetical pollution control costs indicated above probably understate significantly the real economic costs of environmental and resource damage in the exporting countries. Contrary to popular view, the available evidence suggests that

the assimilative capacity for most pollutants in the major industrial centres of developing countries has been greatly exceeded. In many Third World cities, in fact, environmental conditions are much worse than those that prevailed in the cities of the industrialized world in the sixties and seventies. The public health costs of air and water pollution alone, in Mexico City, for example, are staggering not to mention damage to public and private property through corrosion. Furthermore, the costs given above relate only to environmental pollution and not to the economic damage costs associated with resource extraction and depletion. The transfers hidden in these costs have not been estimated but could be substantial since OECD imports from developing countries are biased towards resource intensive commodities.

54. One implication of such distortions is that developing countries are able to attract more investment to export these polluting good than they would under a more rigorous system of global environmental control. This point has been argued in a positive sense; that developing countries have comparative advantage in 'pollution-intensive' goods and should exploit it. We feel that this is both shortsighted and self-defeating and that it is in ldc's own interests that more of the environmental and resource costs associated with production can be internalised. The responsibility to initiate changes in this situation will necessarily have to come from the developing countries themselves through national action and effective co-ordination of their policies at the regional and global level.

55. In this context the Commission would recommend that developing countries consider working through appropriate organizations - particularly at a regional level - to review the various means through which they can internalize more of

the environmental and resource damage costs of production and reflect them in prices. The Commission recognises however the danger that some developing countries will regard any pressure in this direction as a form of disguised protectionism from established producers and stresses that initiatives must come from the developing countries themselves.

Export/Import of Banned or Severely Restricted Chemicals

56. An important class of what could be called "product pollution" problems arises in the export of chemicals and hazardous products and wastes. About 70 to 80 thousand chemicals are now on the market and, hence, in the environment. About 10 per cent of these are thought to be hazardous to man and to the environment, but the figure is based on a sampling of only about per cent, the percentage that has, in fact, been tested. The rest are on the market and in the environment without benefit of adequate testing.

57. Up to two thousand new chemicals come on the market every year, mostly without benefit of prior testing, although that is now beginning to change. Thanks to the effort mainly of regional organizations like OECD, the world is moving gradually from a system of post-market testing, to a system of pre-market testing of all new chemicals.

58. To date, over 500 chemicals and chemical products have been banned altogether or had their uses restricted in the country of origin.* In addition, an unknown number of chemicals are withdrawn from clearance processes every year in the light of control agency concerns, or they are never submitted to their national control agencies for clearance. Many of the chemicals, however, are produced for export.

59. While most industrialized countries are now tightening their control systems, most developing countries have no effective control systems. Many are simply unable to establish such systems because of a combination of institutional and financial limitations and a shortage of professional staff. There are very few restrictions on the export of these chemicals and chemical products to other countries. And there are virtually no restrictions on imports by developing countries.

(N.B. This section will be completed following the Commission's discussion in Ottawa of the corresponding issue dealt within the Industry Chapter)

* See "UN Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn, Severely Restricted or Not Approved by Governments".

Environment-Development Issues in Multilateral Trade Fora.

60. Although a number of research projects had been carried out in UNCTAD over the years on the links between trade and environment, these issues have not been taken up systematically at the intergovernmental level. Nor have environment-related issues been considered adequately in the work of GATT. Clearly the mandates of these organizations should include sustainable development. The environmental implications of trading patterns (e.g. loss of tropical forests and genetic resources, energy-induced climate change, etc.) and the need for more effective instruments to integrate the protection and enhancement of the environment and the resource base of development into international trading arrangements should form a major part of their ongoing activities. The Commission would recommend that the promotion of sustainable development be added as a priority item on the agenda for all future multilateral trade negotiations.

61. The reorientation of international organizations dealing with trade will be easier to secure if each national designates a lead agency with a broad mandate to assess the effects of international trade on sustaining the environmental and resource base of economic growth and assigns to this agency the responsibility to raise environment and resource sustainability issues in the work of UNCTAD, GATT, OECD, CMEA and other relevant international and regional organizations.

(3) TRANSNATIONAL CORPORATIONS AND THE ENVIRONMENT AND DEVELOPMENT

62. The post-war period has seen a growing internationalisation of investment activity in the market economies. According to data compiled by the U.N. Centre for Transnational Corporations, foreign affiliates accounted for 40

per cent of sales, 33 per cent of net assets and 56 per cent of net earnings for 380 of the largest industrial corporations in the market economies. A substantial proportion of transnational investment is within the group of developed market economies and reflects the growing integration of their economies. However, the role of transnational corporations in developing countries has also been increasing albeit less rapidly than other forms of commercial finance. Between 1965 and 1983, developing countries received \$106 billion of direct foreign investment, more than half of this being in Latin America. Transnational corporations play an important role as owners, partner in joint ventures and suppliers of technology in the mining and manufacturing sector in many developing countries, especially so in certain environmentally sensitive areas like petroleum, chemicals, metals, paper and automobiles. They also dominate world trade in a large number of primary commodities.

THE IMPORTANCE OF TRANSNATIONAL CORPORATIONS

- * Precise and conclusive figures and data on worldwide deployment of polluting and environmentally hazardous industries are not readily available.
- * Some of the available data indicate that in 1983 chemicals accounted for roughly one fourth of the stock of foreign direct investment in manufacturing in the Third World by companies from four leading countries, i.e. USA (23%), UK (27%), Japan (23%) and FRG (14%).
- * Agriculture, mining and other extractive industries accounted for roughly 38% of the stock of US investment in developing countries in 1983. 29% of the stock of Japanese investment in 1983, 21% of the total FRG investment in 1981-83, and 9% of the stock of UK investment in 1978.
- * The percentage of global commodity trade controlled by 3-6 largest transnationals is 80-90 per cent for tea, coffee, cocoa, cotton, forest products, tobacco, jute, copper, iron ore and bauxite.

63. The limited evidence that is available suggests that the dominant considerations which influence the international deployment of TNCs are markets, manpower and resources. However, the global structures and strategies of TNCs place them in a favourable position to benefit from jurisdictional ambiguities, and the diversity of environmental policies, responses and institutions between countries, especially between developed and developing ones.

64. The Commission notes that there has been something of a change in recent years in many developing countries towards more positive perceptions of the role direct investment by TNCs can play in the development process. This has been partly conditioned by the critical external financing position which many countries face and awareness of the potential role which foreign investment might play in easing it. For their part, many corporations appear to have learnt from the, often unhappy, experience with developing country government in the past. With experience has come a recognition by corporations of the need to share managerial skills and technological know-how with host country national and to pursue their profit seeking objectives within a framework of long-term sustainable development.

65. Nonetheless mutual suspicions remain, usually because of an asymmetry in bargaining power between large corporations and small, poor, developing countries. Often negotiations are rendered one sided by a lack of information, technical unpreparedness and political and institutional weakness on the developing country side. Suspicions and disagreements remain, particularly concerning the introduction of new technologies, the development of natural resources and the use of the environment. If multinational companies are to play a larger

role in development these conflicts and suspicions need to be reduced. The Commission feels therefore, that strengthening the bargaining posture and response of developing countries vis-a-vis transnational corporations is critical. Where developing countries lack indigenous capacity to deal with large TNCs, regional and other international institutions should assist the countries concerned. They could help by elaborating model agreements with transnational corporations for different situations such as lease agreements for the exploitation of a mineral resource. They could also field technical assistance and advisory teams when a country engages in negotiations with a transnational, etc.

66. The Commission has also observed that there have been few effective responses by the home countries to these issues. In view of the impact that the activities of transnationals can have on the environment and resources of other countries, and on the global commons, home countries need to assume an important degree of responsibility in this sphere. Hence, the Commission recommends that the limited policies now in effect in some industrialized countries under which major investments are subject to prior environmental assessment need to be extended to investments made in other countries and broadened to include sustainability criteria; the information and recommendations thus arrived at should be shared with the host countries, who of course would have the final responsibility for decisions. Information on policies and standards applied to, and followed by, corporations when investing in the home country, especially concerning hazardous technologies, should also be provided to host countries.

67. International measures regarding transnational corporations have been generally lacking and extremely difficult to negotiate. Yet such measures are of critical

importance in piercing together a viable global strategy and regime on transnational corporations, environment and development. The codes of conduct for transnational corporations formulated by the OECD and under discussion in the UN should deal explicitly with environmental matters and the objective of sustainable development. In parallel, more detailed and specific instruments are needed for special problems, such as safety of working environment in chemical industry, or practices in agricultural and forestry activities.

68. When introducing a new technology, plant, product or process, or setting up a joint venture in a developing country, the parties involved and TNCs in particular, must also recognize and accept certain special responsibilities. TNCs should adopt the highest safety and health protection standards practicable and acceptable to the host country, and assume responsibility for safe process design, staff training, etc. National and local authorities should be fully informed about the properties and potential effects of the technology, process or product being transferred, including all emissions and wastes generated, and any potential risks to the community and the measures needed for the effective monitoring, regulating and management of the effects, wastes and risks. Technical assistance should be extended to local authorities and institutions. Host country governments, in turn, and the competent authorities nationally and locally, should adopt and enforce the appropriate legal and other measures and ensure that adequate provisions are written into the terms of the contract with industries concerning each party's responsibility. It is recognized however that one of the characteristics of underdevelopment is that, without external assistance, resources often do not exist for drawing up and enforcing effective standards.

(4) TECHNOLOGY TRANSFER AND THE ENVIRONMENT

69. It is one of the greatest inequities of current international arrangements that while 75 per cent of the world's population lives in poor countries, most of the world's R & D - 95 per cent - takes place in rich countries, and an even higher percentage for emerging technologies. Thus a disproportionately small effort is currently being devoted to adapting recent innovations in materials, technology, energy, conservation, information technology and biotechnology to the needs of developing countries. Yet there are potential gains in respect of greater efficiency in energy and resource use, and the environment, which are highly significant.

70. In the field of energy, large savings are possible. In the developing countries, fuels account for about 15 per cent of imports and a large proportion of external financing has gone into hydro and other energy projects. Yet, as Chapter VII has demonstrated, the potential for sharp improvements in energy efficiency in developing countries is enormous and, along with greater emphasis on indigenous sources of renewables, it represents a large part of the least-cost approach to balancing future energy supply and demand. The examples of China and India also demonstrate how improvements in agricultural productivity can radically transform development prospects, but, so far, only a relatively small number of crops and farming systems have benefited from the advances which could be achieved in tropical agriculture.

71. The institutional and policy changes required to promote resource productivity are, to a large extent, in the realm of domestic economic policy. However the international economy impinges on the possibilities for productivity improvement in

several ways. The critical area of interaction is in the transfer of technology from one country to another. The environmental aspect of technology transfer as it operates through the activities of transnational corporations and development assistance agencies has been dealt with in the earlier sections. This section deals with certain aspects of technology transfer which are not directly linked to the flows of finance. The principal areas which need to be examined are the following:

- (a) the applicability of patents or the proprietary rights in certain areas of technology;
- (b) international assistance for building up technological capabilities in developing countries;
- (c) the promotion of multi-country co-operative efforts at technologies for sustainable development.

Patents and Proprietary Rights

72. Patents and proprietary rights are a key element in the commercial development of technology. However their application in certain areas may hamper the diffusion of environmentally sound technologies and lead to a measure of inequity. An important case relates to the patenting of new seed varieties. At present 55 per cent of plant genetic resources are controlled by institutions in developed countries, 31 per cent by institutions in developing countries and 14 per cent by International Agricultural Research Centres. This genetic material is drawn to a large extent from the developing countries. Commercial interests involved in plant breeding seek proprietary protection for improved seeds without recognising the rights of countries from which the

original seeds were obtained. In this situation the application of purely commercial principles may lead to a decline in the exchange of genetic material and reduce the options available for seed development both in developed and developing countries. Moreover the gap in genetic research capabilities is so wide that agriculture in developing countries may become excessively dependent on private gene banks and seed companies in the developed countries.

73. The rigid application of patent production and commercial principles may also stand in the way of technology development and diffusion in certain other areas which are critical for the promotion of sustainable development like renewable energy technologies and pollution control methods. Patents and proprietary rights can sometimes stand in the way of full disclosure of information on hazardous products entering trade.

74. In view of this consideration the Commission would recommend that the technologies required by small producers for the pursuit of sustainable development be treated as international public goods. In these areas the applicability of patents and proprietary rights should be limited and the incentives for research and development be provided essentially through public funding. In critical areas like seed varieties international co-operation is vital and the approach should be to negotiate comprehensive agreements specifying the division of responsibilities and the sharing of gains.

Building-up S & T Capabilities in Developing Countries

75. As we have already noted there is a large difference in research capabilities between the developed and developing countries. The number of scientists, engineers and technicians engaged in R & D per 10,000 inhabitants is around 28 in the developed market economies, 50 in the socialist countries of

Eastern Europe and only 2.5 in the developing countries. The share of these three groups of countries in the world total of patents granted in 1980 was 65 per cent, 29 per cent and 6 per cent respectively. Moreover the bulk of the patents granted in developing countries were to non-residents. In terms of the cost of technology imports, developing countries paid about \$2 billion by way of royalties and fees and the developed countries showed a corresponding surplus of their technology trade account. The gap in S & T capabilities is particularly pronounced in a number of areas of direct relevance to the objectives of sustainable development. Bio-technology and genetic engineering are outstanding examples, as are new energy sources, new materials and substitutes, low-waste and non-polluting technologies, etc.

76. Developing countries are making an effort to build up their technological capabilities and in many areas the gap is narrowing. These efforts are supported by international assistance through the United Nations system and through the activities of other multilateral and bilateral agencies. The Commission would recommend that the international assistance provided by these agencies for scientific and technical education, scientific research and technical extension must be stepped up significantly in environmentally critical sectors like agriculture, forestry and animal husbandry, water resource development, development of renewable energy sources, pollution control, etc.

Co-operative Ventures for Technology Development

77. At present the greater part of global R & D effort is devoted towards military purpose or the commercial objectives of large corporations. The orientation of R & D activities in the developed countries is largely towards their own needs.

Hence a major effort will need to be mounted by the developing countries, individually and jointly, to develop various technological solutions appropriate to their needs and related to the potential and constraints of their own environment, as well as to filter and adapt technologies transferred from the industrial countries.

78. One possibility of economising on effort is the establishment of co-operative mission-oriented research projects by groups of countries. There are precedents for such projects. For instance the activities of the International Agricultural Research Centres have some of the characteristics of such an approach. Another example is the idea being considered by the government of Japan to fund a \$5 billion dollar international programme of basic research which would seek fundamental solutions to such problems as pollution, diminishing resources and overpopulation, and aim at the creation of a new paradigm for science and technology which is in harmony with man and nature. This initiative transcends the traditional frame of reference in international economic relations. If it is properly embedded in the framework of multilateral development co-operation, in addition to yielding an S & T foundation to deal with these problems, this programme could provide the necessary impetus for a qualitatively different phase of international co-operation. It would also create a large scientific community committed to the needs of human kind.

79. Mission-oriented co-operative research ventures could be developed in critical areas like dryland agriculture, tropical forestry, pollution control in small enterprises, low-cost housing, etc. Specific responsibilities would be assigned to institutions and corporations in the participating countries and the agreement could provide for the equitable sharing and

widespread diffusion of the technologies developed in such ventures. The funding could come from the participating countries with support from the U.N. system and multilateral and bilateral development assistant agencies. As a first step towards such ventures an organization like the United Nations University should take the lead in identifying specific proposals for such co-operative missions oriented research programmes.

THE FUTURE: TOWARDS THE YEAR 2000

80. If large parts of the developing world are to avert catastrophic economic, social and environmental conditions, it is essential that growth is restored in those countries to levels which permit per capita incomes to rise on average, and absolute poverty to be reduced. For this to occur, it is necessary for all developing countries, except perhaps the largest, that the international economic climate improve. In practical terms, this means more rapid growth in industrial countries; freer market access for the product of developing countries; lower interest rates; greater technology transfer; and significantly larger capital flows, both concessional and commercial. But such a scenario creates, for many, the anxiety that, in a world economy which is growing more rapidly, environmental pressures will occur which, while different in character from those presented by growing poverty, are no more sustainable. In particular, the pressure of increased demand for energy and other non-reversible raw materials could significantly raise their price relative to other goods. And while this might improve the terms of trade of some developing country exporters it could hurt others; or, alternatively, demand could be met but at the cost of an ecologically unacceptable depletion of scarce resources.

81. Our overall assessment is that if the international economy can be reformed in such a way as to permit the speeding up of world growth - as it must for the sake of development - the environmental constraints can be handled. Moreover, there are some favourable trends in the pattern of consumption and production in developed countries which, collectively, still represent by far the major source of demand for the world's non-renewable resources. Many developed countries have been undergoing a significant restructuring with a shift towards new and emerging technologies in virtually all sectors, including agriculture, transportation, housing and urban development. In industry, there has been a move toward certain high technology products, processes and plants, and a greater focus on services. These trends have led to a measurable "dematerialisation of the economy" in the sense that energy, resource and environmental context of growth, for example, fell in many industrialized countries, in some from 1.2 to 0.5 units, resulting in substantial reductions in the costs of environmental damage. While the momentum that was recently producing gains in energy efficiency of up to 2 per cent year is now threatened by the third energy shock, over the medium and longer-term these trends, and similar trends in other areas, are likely to continue. Further, some trends suggest moves to other, newer kinds of growth, involving higher levels of personal development, physically, intellectually and spiritually. Where the potential for growth in the traditional sense may be limited, there are no limits to this kind of growth.

82. If these trends can be sustained it will be easier for developing countries to grow through diversification of their own economies. Some have already experienced a rapid development of certain basic and traditional industries and, with the growth of global sourcing of parts and materials, even

some high tech industries. As this diversification proceeds their requirement for materials and energy will go up. With the availability of more resource-efficient technologies, however, and higher levels of management skills, these increases could be significantly moderated. A continuation of such economic growth and diversification, along with development of the technological and managerial skills required to minimize environmental damage will help developing countries to mitigate the strains on the rural environment, raise productivity and consumption standards and reduce their dependence on one or two primary products for their export earnings.

83. These considerations lead us to believe that, in the aggregate, environmental constraints on the growth process can be managed. As discussed in earlier chapters, future patterns of agricultural and forestry development, energy use, industrialization and human settlements can be far less material intensive, and hence both more economically and environmentally efficient. Under these conditions, a revival of the growth process in the world economy can widen the options available to developing countries, making it easier for them to shift to environmentally sustainable development paths.

84. The Commission has sketched out, in the preceding section of this Chapter, an agenda for international reform which tries to deal simultaneously with economic and ecological aspects, in such a way that developing countries could achieve a growth stimulus from the world economy while giving greater weight to environmental concerns. The Commission recognises that implementation of such an agenda requires a high level of commitment by developed and developing countries to the satisfactory working of multilateral institutions - such as the multilateral development banks; to the meeting and observance

of international rules in fields such as trade and investment; and to constructive dialogue on the many issues where national interests do not immediately coincide but require negotiation to be reconciled. Moreover, the Commission regrets , but cannot ignore, that multilateral co-operation in general and a negative attitude to dialogue on development in particular. The introduction of an environmental dimension, at first sight, adds further difficulties and complications. But it also injects an additional element of mutual self-interest, since a failure to address the interaction between resource depletion and rising poverty will spill over and become a global ecological problem. A return to multilateralism is essential to human progress. The Commission feels confident that the mutual interests involved in the environment and the development issue can help generate the momentum for that return and secure the necessary international economic changes it will make possible.