THE CONCEPT OF COMPENSATION IN THE FIELD OF TRADE AND ENVIRONMENT

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International Union for Conservation of Nature and Natural Resources
1110 Morges, Switzerland
1973
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INTERNATIONAL UNION FOR CONSERVATION OF NATURE AND NATURAL RESOURCES MORGES, SWITZERLAND 1973
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FOREWORD

This series of publications was formerly entitled IUCN Environmental Law Papers. The title of the series has been changed to provide for a wider range of topics relating to IUCN activities within the field of interest of its Commission on Environmental Policy, Law and Administration (CEPLA), including a number of concepts relating to the development of environmental policy which could benefit from an independent analysis so as to clarify the issues involved.

During the preparatory work for the United Nations Conference on the Human Environment (Stockholm, June 1972) and at the proceedings of the Conference itself, several issues were raised which warrant further exploration. A small Task Force was established under the aegis of CEPLA to consider these matters and, as a result, several topics have already been examined.

The Task Force is an informal international group brought together on an ad hoc basis through questions and concerns shared in common. Its members serve voluntarily in their private capacities, and need to work largely by correspondence. The Task Force has operated under the Chairmanship of Christian de Laet and has as members: Peter Ellyard, Robert Gruzka, Scott McLeod, Robert Munro (Coordinator), and Shadia Schneider-Sawiris. They are working closely with the following members of CEPLA: Wolfgang Burhenne, Lynton K. Caldwell, and Richard N. Gardner and with senior members of the IUCN Secretariat: Gerardo Budowski, Raymond F. Dasmann, and Frank G. Nicholls.

Prominent amongst the concerns of the Task Force have been the concepts of “additionality” and “compensation”; subjects linked with the economic and political relationships between the developed and developing countries, and the different priorities necessarily prevailing between these groups which gave rise to tensions at Stockholm. As a result of the exchanges between members of the Task Force on these topics, several papers are being prepared for publication in this series, among them the present paper, which is the first.

While the concept of additionality expresses the expectation of developing countries in the financing of international action, the concept of compensation expresses their preoccupation with their position in international trade. When referring to additionality, developing countries insist that the funds necessary for environmental action should be independent of those provided for their economic development, that is, they should be independent of and additional to funds already
provided in existing schemes for development assistance. When referring to compensation, developing countries insist that the economic position they at present hold in international trade should not be adversely affected by environmental action of industrialized countries, and if such effects occur they should be adequately compensated for the adverse results.

This group of papers is presented as a contribution towards defining the issues and alternatives with reference to relevant precedents and the difficult choices, largely political, which must be made. They do not attempt to elaborate action proposals. The solutions envisaged for such important problems as financing, procedures and organizational frameworks are part of an attempt to clarify the concerns involved and to provide a background to the debates that will arise in various international gatherings. Although the papers are based on discussions and suggestions within the Task Force, the credit and responsibility belongs essentially to the authors who have carried out the research and creative work.
BIOGRAPHICAL NOTE


ACKNOWLEDGMENT

The author, while assuming sole responsibility for the text, wishes to acknowledge the constructive comments and suggestions of Mr. Maurice F. Strong, Executive Director of United Nations Environment Programme; Mr. Robert A. Frosch, Assistant Executive Director of United Nations Environment Programme; Mr. Frank Nicholls, Deputy Director General, IUCN; Mr. Christian de Laet, Secretary-General of Canadian Council of Resource and Environment Ministries; Mr. Wolfgang Burhenne, Secretary-General of Inter-Parliamentary Working Group; and Mr. Robert D. Munro, Environment/Housing Division, Economic Commission for Europe.

The author assumes sole responsibility for the text; the views expressed in this paper are not necessarily those of the United Nations.
Recommendation 103 of the United Nations Conference on the Human Environment (Stockholm, June 1972), in treating certain questions of international trade and measures for the protection of the environment, proposed inter-alia:

that where environmental concerns lead to restrictions on trade, or to stricter environmental standards with negative effects on exports, particularly from developing countries, appropriate measures for compensation should be worked out within the framework of existing contractual and institutional arrangements and any new such arrangements that can be worked out in the future.

The recommendation called for an examination of the problems in this context and an adjustment of trade differences, cooperation and coordination in elaborating environmental standards, and assistance in meeting the consequences of stricter environmental standards.

The primary preoccupation quite obviously motivating Recommendation 103 was expressed in its first paragraph, which stated:

that all countries present at the Conference agree not to invoke environmental concerns as a pretext for discriminatory trade policies or for reduced access to markets and recognize further that the burdens of environmental policies of the industrialized countries should not be transferred, either directly or indirectly, to the developing countries . . .

In fact, the differences in approach and priorities made it difficult for most developing countries to understand fully the extent to which industrialized countries were concerned with their own particular environmental problems. They had experienced too many negative effects occurring in industrialized countries not to fear that this 'new problem', and the manner in which industrialized countries would cope with it, would adversely affect their efforts for economic development.
and further increase their difficulties in the international economic system. They had suffered from technological and industrial progress in the already industrialized countries and the ensuing deterioration of their terms of trade, from the disruptions in the world monetary system and even, to some extent, from the economic integration among industrialized countries. Concern with the environment in the industrialized countries, it was feared, might again adversely affect the efforts for development in the developing countries.

This preoccupation is justified, at least as far as regulations for the protection of the environment will affect international trade and "the allocation of resources. Some cases have occurred already; they range from industrial products such as cars, detergents, etc., to agricultural products which have been treated with certain chemicals. The question as to whether the effects on trade and the allocation of resources will be beneficial or detrimental to the economic/trading position of developing countries is discussed below.

At an early stage in the preparations for the Stockholm Conference, this preoccupation with the adverse effects of environmental regulations on the trading position of developing countries was expressed. Already, the Founex Report (June, 1971)\(^2\) states in paragraph 4.3, "There are growing fears in the developing world that the current environmental concern in the developed countries will affect them adversely in the fields of trade, aid and transfer of technology".

Six months after the meeting at Founex, the UN General Assembly passed its Resolution 2849 (XXVI) which, inter-alia:

4. **Stresses** that both the action plan and the action proposal to be submitted to the Conference, must, inter-alia:

(b) Recognise that no environmental policy should adversely affect the present or future development possibilities of the developing countries;

(e) Avoid any adverse effects of environmental policies and measures on the economy of the developing countries in all spheres, including international trade, international development assistance and transfer of technology;
10. Request the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) to prepare a comprehensive study to be submitted to the Conference at its third session on the effects of environmental policies of developed countries which might adversely affect the present or future development possibilities of developing countries by means of inter-alia:

(b) A further deterioration in the trading prospects of developing countries, by the creation of additional obstacles, such as the new non-tariff measures, which might lead to a new type of protectionism.

The UNCTAD Study¹ called for by the General Assembly resolution was prepared in March 1972 and submitted to the Third Session of the United Nations Conference on Trade and Development (UNCTAD III) in Santiago de Chile in May 1972. The report deplored the "scarcity of data and detailed studies in this field" (para. 3) and was able to conclude that "environmental actions by developed countries may thus have a profound and multiple impact on the growth and external economic relations of developing countries" (para. 57).

Resolution 47 (III) adopted at UNCTAD III recommended to the United Nations Conference on the Human Environment to bear in mind relationships between the environment and trade and development, especially of developing countries, and called the attention of the Conference to the report of the UNCTAD Secretariat.

Parallel to the UNCTAD activity, GATT conducted research in this field and in June 1971, issued a study on industrial pollution control and international trade. This study was primarily concerned with trade effects caused by environmental regulations concerning industrial processes rather than those concerning products, but also stressed the considerable influence which environmental regulations may have on international trade and capital flows.

In a number of preparatory meetings to the United Nations Conference on the Human Environment, and in particular in the regional seminars, the question of trade effects of environmental regulations was also extensively discussed, frequently on the basis of the Pounex Report. The specific notion of compensation was first developed at the All-African Seminar on the Human Environment (one of five regional seminars held in preparation for the Stockholm Conference) in Addis Ababa from
Additional funds would be required to subsidize research into the environmental problems of the developing countries to compensate for major dislocation in the proceeds of their exports, to cover the additional costs of development projects, to restore their investment or production patterns, etc.

The Founex Report (to which the discussion in this passage from the African Regional Seminar refers) did not refer expressly to any direct form of compensation, but only suggested that "action should be taken to cushion the disruptive effects of such measures on the trade of the developing countries through a system of prior consultation and warnings by the developed countries of environmental actions contemplated by them." However, the Founex Report did suggest that "in certain cases, the possibility of channelling additional aid towards adapting export industries in developing countries to the new requirements in developed countries or towards diversification of their exports should also be studied" (para. 4.5).

The Report on Development and Environment for the Stockholm Conference takes up more specifically the concept of compensation; its Recommendation 32, later submitted as a proposal which was transformed into Stockholm Conference Recommendation 103, calls for "appropriate measures for compensation" in cases of restrictions on trade or negative effects on exports due to stricter environmental standards.

This proposed recommendation was the subject of long debates during the Stockholm Conference, and a number of industrialized countries opposed the provision concerning compensations either on grounds of principle (as, e.g., the United States of America and Japan) or because of their doubts as to the applicability of this concept (e.g., U.K. and Italy); France, which voted for the recommendation, expressed doubts as to its implementability and stressed that many problems raised in the recommendation still need to be resolved.

Some countries, like the United States of America and Canada, although opposed to the concept of compensation, suggested financial or technical assistance to aid the developing countries to bring their export products into compliance with the stricter environmental standards of developed countries.

In the final text of Recommendation No. 103, some passages were added to the proposal, but these additions did not
contribute to a clarification of the concept of compensation nor did they give any clear indication as to its implementation.

In the final form of Stockholm Recommendation 103, the notion of compensation then appears in two forms:

(1) Para. (b) of the recommendation in a broad and general manner calls for "appropriate measures of compensation" for trade restrictions and for negative effects on exports due to stricter environmental standards;

(2) In a much narrower sense, para. (d) calls for "assistance in meeting the consequences of stricter environmental standards" but it should be noted that this assistance, according to the recommendation, "ought to be given in the form of financial or technical assistance for research with a view to removing the obstacles that the products of developing countries have encountered" (our emphasis).
Recommendation 103 presents the concept of compensation only in very general terms and mentions only one particular measure which could be considered as one of the forms in which compensation should be granted. The indication that measures for compensation "should be worked out within the framework of existing contractual and institutional arrangements", was an amendment to the original proposal, but does not serve to delineate clearly the concept of compensation since the passage continues by referring to "any new such arrangements that can be worked out in the future". Nevertheless, a brief look at existing contractual and institutional arrangements may help an understanding of the concept.

In the absence of clear criteria in the recommendation itself for determining the notion of compensation, we will have to deduce the meaning of this concept from the underlying principles and the purposes it is to serve. In this paper I will examine the circumstances under which the trade positions of developing countries may be affected adversely by "environmental concerns" of industrialized countries and the possibilities for redressing these adverse effects. My purpose, therefore, is to investigate the possibilities for most effectively implementing the recommendation after considering the preoccupations which have motivated it. In this paper, compensation will be understood as any action taken to redress adverse effects caused to the trading position of the developing countries by measures which industrialized countries have taken in their concern for their environment. It is granted that this definition has, in some aspects, a wider scope than the terms expressly used in the recommendation indicate.

Before dealing specifically with compensation in the context of trade and environment, a glance at the use of the concept of compensation in related fields may be useful. The concept of compensation is frequently invoked in international commercial relationships. The best known example is the case of Article 19 of the General Agreement on Tariffs and Trade (GATT) which provides the contracting parties in certain emergency situations with the possibility of raising a particular tariff. In such an
event, the contracting party which wishes to avail itself of this provision has to advise the other contracting parties and, in particular, those affected by its intention, and consult with them in respect of the proposed action. This consultation should lead to a compensatory adjustment so that the general level of reciprocal and mutually advantageous concessions in GATT is maintained. The adjustment may take the form either of compensatory concessions on the part of the contracting party taking action under this provision, or of the withdrawal of concessions by the contracting parties affected by this action.

A similar provision is contained in Article 24 of GATT, which permits derogations of the most favoured nation clause in case of customs unions. If a contracting party not joining the Customs Union is faced with higher tariffs in its exports to a member of the Customs Union, negotiations for compensatory arrangements are required (Article 24, para. 6). This provision played a considerable role in the negotiations accompanying the formation of the European Economic Community (EEC) and, recently, has again been invoked by some non-members requesting compensation for trade losses due to the enlargement of the Community.

In a different context, the concept of compensation has been invoked in UNCTAD. Thus Resolution 58 (III) adopted at UNCTAD III noted the adverse effects of major currency realignments on the terms of trade of a number of developing countries and recommended compensation in the form of additional aid, alleviation of debt service and compensation for losses in monetary reserves due to currency alignments.

A more detailed investigation into this aspect may reveal further examples of compensation for trade losses; for example, reference may be made to negotiations for the reduction of poppy plantations in view of more efficient drug control and adaptation mechanisms provided for the agricultural regions concerned.

These few examples may show that certain mechanisms for compensation in the case of new trade barriers are already provided in the framework of existing arrangements. The study by GATT therefore concluded that "any conflicts of trade interests arising from variations in national standards (resulting from environmental regulations of products) or from testing and certification problems in their enforcement may be resolved through existing and evolving arrangements and procedures relative to problems posed by standards in general."
This conclusion is based on a somewhat traditional outlook on international trade relationships. Such traditional concepts of international trade to a large extent leave it to the importing State to decide on the standards of imported goods, provided that such standards are not discriminatory or do not aim at trade advantages for the importing State. In general an exporting State has no claim to protection and preservation of a certain trading position. During the debates at the Stockholm Conference, the United States stressed this traditional conception and opposed, as a matter of principle, the notion of compensating nations for declines in their export earnings, regardless of cause.

In trading relations between partners of comparable economic situations, such a position appears quite reasonable. One may even hold that it is not contradictory to this position if the United States, together with other countries such as Japan, Canada and Australia, request compensation for the adverse effects on their trade with the U.K., Ireland and Denmark, caused by the entry of these countries into the European Common Market. Such requests for compensation, as pointed out above, are based on Article 24, paragraph 6, of GATT and are justified on the grounds that the relations in the different national customs systems are the result of previous negotiations and mutual concessions. If one of the partners, by entering into a customs union raises its tariffs vis-à-vis another partner not entering, and thereby withdraws some of its concessions, the other partner should be compensated for such withdrawal.

In the case of compensation referred to in Stockholm Recommendation 103, the situation is quite different. Compensation in this context precisely does not provide for cases of discriminatory trade barriers (in fact countries have agreed "not to invoke environmental concerns as a pretext for discriminatory trade policies . . ."), but provides for cases where trade barriers are perfectly justified due to legitimate environmental concerns; nor may a developing country requesting compensation invoke previous tariff concessions, as can be done in the context of Article 24 (6) of GATT. The traditional framework of international trade does not seem to justify any request for such compensation referred to in Recommendation 103.

Such compensatory requests are justified by different considerations. The international community has recognized its responsibility for the economic development of less developed countries and has endorsed it in the proposals set out by the United Nations for the Second Development Decade providing for an international development strategy. The United Nations and
the Member States are expected to support efforts for the achievement of this objective and to abstain from any action which might jeopardize its success. In the context of Development and Environment, this has been confirmed again by UN General Assembly Resolution 3002 (XXVII) of 22 January, 1973.

It is quite evident that adverse trade effects due to environmental measures will aggravate the economic position of an exporting country and adversely affect its efforts for development. The difficulties with which developing countries are faced are already great, and it appears doubtful whether these countries should also have to bear the additional burden of a reduction in vital foreign earnings by trade restrictions based on environmental concerns of industrialized countries.

The concept of compensation, as endorsed in Recommendation 103, is based on the international objectives of economic development of the less-developed countries and expresses the responsibility of the international community for the achievement of the objectives of the Second Development Decade.

This difference in justification for compensation under Recommendation 103 should be borne in mind when reference to existing contractual and institutional arrangements is made. Nevertheless, these existing arrangements may be valuable as a basis and starting point for the elaboration of new arrangements to fit the requirements of a new form of compensation.

Before examining the adequacy of existing systems to provide the measures called for by Recommendation 103, it is necessary to discuss those measures which may affect the trade position of developing countries, that is the circumstances in which the need for compensation may arise.
The question of possible effects of environmental regulations on international trade does not seem to have been studied in sufficient detail to allow well-founded conclusions. Studies on this subject rely heavily on general considerations, or extrapolate from the few existing data. It appears essential to conduct detailed investigations into the flow of certain goods and of capital, and the possible effect which existing or envisaged environmental regulations may have on these flows. In the absence of such detailed information, the present paper can deal only with general considerations.

A. Exports from Developing Countries

Some studies examining the trade effects of environmental measures distinguish three categories:

(a) Industrial products in their intended use;
(b) Products after they have been used;
(c) Production processes.

Measures of environmental control and the regulations which governments may pass in this context may affect international trade in different ways. Therefore, each of these three categories are analysed separately below.

(a) Products in their intended use

Governments have started to examine products on their national market for their possible effects on the environment. An increasing number of goods are subject to national regulations requiring certain standards. These standards may range from the content of lead and sulphur in gasoline to the biodegradability of detergents, from requirements for automobile construction (reduction of exhausts) to the conditioning of certain foodstuffs (traces of antibiotics in meat, traces of DDT in food and vegetables). The measures may consist in levying additional charges on the distribution of products not conforming to the standards, or forbidding their distribution.
on the national market altogether. The intended object in all cases is to restrict, or eliminate entirely, the use of products not conforming to the standards.

The trade effects of such measures may occur on two levels: they may either affect a given product directly and restrict its imports, or have an indirect effect in instances where the product in question is produced nationally with imported raw materials.

As concerns restricted products, it appears at first sight that mainly trade between industrialized countries is involved and the cases cited in the studies on this subject seem to confirm this impression. The notable exceptions are agricultural products, which may be affected by regulations concerning the content of certain chemicals in foodstuffs. The UNCTAD study\(^{11}\) cites the case that importation of fruit and vegetables carrying traces of some DDT and some other pesticides has already been banned in a number of Western European countries.

In view of the considerable role played by agricultural products in the exports of developing countries, such measures may have serious effects on the trading position of certain developing countries. In the absence of any detailed studies on this subject, the extent of these effects cannot be fully assessed.

Mention should be made of some of the difficulties which arise when environmental and health standards are applied to agricultural products. Frequently it is not the use of certain chemicals in the agricultural product which is considered harmful by the importing country but rather the residue of such a chemical in the agricultural product if it exceeds a certain concentration. The concentration of such residues in turn depends on a number of factors, some of which (such as meteorological conditions) are beyond human control (e.g. the concentration of residues of fertilizers and pesticides may depend on the amount of rainfall after treatment). Thus it may depend on the season, the region, or the technique of the individual farmer whether a crop meets the environmental standards of the importing country. Upon arrival in the country of destination, a shipment of agricultural products may be found contrary to standards and it may be too late to dispose of it so that it has to be destroyed.

The effect of product standards on imports of raw materials used in the national production of goods subject to environmental restrictions is as difficult to assess as that on imports of finished products. In the case of certain raw
materials, in particular those for which demand is inflexible, such restrictions may have a considerable effect. It may be true that in certain cases one raw material may be replaced by another but this is often of little consolation to the developing countries directly affected by the consequences of these restrictions.

It should be noted that such measures are basically of the same kind as those for the promotion of health and safety, and that the State in principle does not contravene its international obligations if it enacts such restrictions provided they are non-discriminatory. A number of principles and procedures to be followed in the field of non-tariff barriers have been elaborated by the international community, particularly in the framework of GATT. The question of whether and how these principles and procedures may be further developed in the field of trade and environment will be examined below.

(b) Products after they have been used

This item refers primarily to questions of waste disposal and the increasing costs created thereby for the communities. The GATT study expressed the opinion that "problems posed by solid waste disposal are mainly local or national in character". This statement does not take into account the effects on international trade of measures taken on a local or national level. There are tendencies to put the costs for waste disposal not on the community as a whole but on those of its members which in the process of production, packing and consumption have caused the waste. This would mean that products which after their use create for the community additional costs for their disposal should be subject to additional taxes. Such taxes should either discourage the use of the product altogether or compensate the community for the additional costs created by the disposal of these products.

Measures of this nature concern primarily the packaging industry but also those producers who, for questions of conservation, presentation or easy distribution, depend on certain forms of packing. As far as the packaging industry is concerned, measures of the above-cited nature would probably affect primarily producers of plastic packaging and may thereby favour the replacement of plastic by other raw material, possibly also from developing countries, such as paper and wood products.

Agricultural products should be cited among the products for the distribution of which packaging is of particular importance. The larger the distance between the farm and the consumer, the
greater the importance of adequate packaging. This holds as true for perishable foods and vegetables as for meat and dairy products. Increases in packaging costs due to environmental regulations of the above-cited nature may reduce the comparative advantages of developing countries in agricultural products and thereby adversely affect their trade position. It will be even more difficult to evaluate trade losses of this nature than it is to evaluate trade losses directly resulting from restrictive environmental regulations.

(c) The production process

Producers in countries with higher environmental standards show themselves increasingly preoccupied with the additional costs which they incur in meeting these higher standards. This creates fears that countries introducing environmental regulations will contribute to their own industry being priced out of certain key world markets, the resultant loss of jobs, and an unfavourable trend in the balance of payments. Two kinds of reaction may be envisaged.

In the first place, countries continue to set their environmental standards according to their own policy objectives, taking into consideration in particular the "pollution level". This conception is expressed in Stockholm Recommendation 103, recommending that governments take the necessary steps to ensure:

(e) That all countries agree that uniform environmental standards should not be expected to be applied universally by all countries with respect to given industrial process or products except in those cases where environmental disruption may constitute a concern to other countries.

The normal consequences of such policy, i.e., in the absence of government intervention, could be "an accelerated transfer of industries or processes causing the most pollution to countries facing a less urgent pollution problem." This possible effect of different environmental regulations in different countries has been pointed out in various studies on the subject and was referred to at the Stockholm Conference and in the Preparatory Meetings for that Conference. It was considered generally as a beneficial and advantageous process. However, it should not be overlooked that a transfer of polluting industries, if it takes place at all, for reasons of infrastructure and labour force, may tend to favour the most developed regions of developing countries, thereby aggravating the present environmental problems which exist in some of these regions.
Another reaction becomes of growing importance in certain countries with higher environmental standards. It calls for a system of protective subsidies for national industries on the one hand, or such trade "equalizers" as tariffs, surcharges or selective import duties on the other. The mechanisms and the implications of such policies have been examined and discussed by Walter, and in the GATT study. The latter concluded that:

Government assistance can assume many forms, including direct import limiting measures. In the latter form, however, it would be likely also to give rise to international commercial policy disputes.

Import-restricting measures based on different environmental standards concerning the production processes would deprive developing countries of one of their few competitive advantages and create considerable trade damages. The point has been argued quite adequately by Beckerman who states:

Thus poorer countries may have an increasing comparative advantage in the production of pollution intensive goods, in the same way as they have had an increasing comparative advantage in the production of goods that are intensive in unskilled labour. They must be allowed to reap the benefits of the former comparative advantage as of the latter, and they can only do so if prices in international trade reflect the higher pollution abatement costs that are generally appropriate in the wealthier countries. It is no more unfair for a poor country to obtain some comparative advantage from the production of some pollution-intensive goods, if, indeed, its optimal pollution abatement costs are lower than in a rich country - than it is for France to have a comparative advantage in the production of wine, or the United States to have a comparative advantage in the production of wheat, or of goods that require a lot of modern technology.

Thus import restrictions based on a difference in environmental standards concerning production processes do not only entail adverse effects on international trade but may also be considered contrary to traditional rules in international trade and, at least to a certain extent, inconsistent with States' rights and obligations, for instance, under the GATT rules. Claims for compensation may in some cases possibly be based already on these GATT rules. The need to complement these rules and provide for protection in particular of the developing countries appears evident; Stockholm Recommendation 103 is a step in this direction.
(d) Standardization

The previous sections refer to action taken on a national level. Action on an international level may also affect the position of developing countries. The position taken in Stockholm Recommendation 103 appears to be contradictory. Referring to industrial processes and products, paragraph (e) of the recommendation states that "uniform environmental standards should not be expected to be applied universally by all countries". However, the recommendation goes on to state that:

In addition, in order to avoid an impairment of the access of the developing countries to the markets of the industrialized countries because of differential products standards, Governments should aim at world wide harmonization of such standards.

This latter passage, in fact, was inserted in the final text as an amendment by the Federal Republic of Germany, France and Canada. In order to resolve the contradiction in paragraph (e), one would have to assume that "harmonization" of product standards does not aim at "uniform environmental standards" with respect to products.

It may be assumed that the purpose of harmonizing product standards is to facilitate export planning for developing countries and to avoid adverse trade effects by what may be considered "excessive" environmental standards for products.

Understood that way, harmonization in the long run may have favourable effects on the trade position of developing countries, although the above-mentioned difficulties concerning agricultural products should not be overlooked. In the short run (i.e. during the time developing countries may need to adapt their production to a certain environment standard in the countries to which they export) such harmonization may in certain cases prevent developing countries from exporting to a country with lower product standards those goods which are barred from another country having raised its environmental product standards.

In summing up the explanations concerning measures possibly affecting the trade position of developing countries, it should be repeated that it is by no means certain that increasingly strict environmental regulations adversely affect the overall trade position of developing countries. As shown above, in a number of instances individual measures will
adversely affect the trade position of particular developing countries, and are likely to lead to considerable disturbances in their trade relationships.

B. Imports

Stockholm Recommendation 103 refers to "access to markets" and exports but does not seem to refer to effects of environmental measures on imports. It appears to be quite likely that the trade position of the developing countries may also be affected on the import side. The increased production costs due to environmental regulations would increase the price of goods thus produced without in any way ameliorating the quality. This effect may be comparable to that of wage increases in the industrialized countries.

On the product side, it is likely that environmental standards of products produced in industrialized countries may frequently be above the requirements of developing countries. In cases where given products are available only in industrialized countries, developing countries will have to pay for such 'excessive' environmental standards, without requiring such standards themselves, unless manufacturers in industrialized countries can be persuaded to produce a "line" of goods meeting the special environmental requirements and conditions of developing countries. Harmonized environmental requirements in developing countries on a regional level may be an incentive for such special "lines" of products in providing a sufficiently large market for them. Such special lines of products for developing countries may even lead to a transfer to the developing countries of the production of some of these goods. These goods should not be considered in any way as second class, but rather as adapted to the particular circumstances.

The problems relating to increases in import costs may be considered as part of the problem referred to generally as "deterioration of terms of trade" and it appears extremely difficult to evaluate even in an approximate manner the effects of such increases in costs and prices on the trading position of the developing countries.
With the exception of the reference to "financial or technical assistance for research", Stockholm Recommendation 103 stipulates the principle of compensation without stating in any way the forms in which this compensation should be granted. The forms in which compensation should be provided have to be deduced from the notion of compensation itself, from general international practice in this field, and from the purposes which it is to serve.

"To compensate" generally is defined as "to be equivalent to" or "to make up for" (Webster's Dictionary) or "to counter-balance", "to make amends" (Oxford Dictionary). To compensate for negative effects on exports implies, therefore, that the country claiming compensation should be placed in a position as if these negative effects had not occurred.

The term compensation generally does not imply any judgment on the cause for which compensation is granted: in international trade relations a State may be obliged to grant compensation for damages caused by an illegal act just as for measures it is authorized to take (e.g. in principle, nationalization of foreign property). Thus, in order to claim compensation in a given context, it does not necessarily have to be shown that the measures taken by the State owing compensation as such were contrary to international obligations.

Within the framework of existing arrangements, and in particular in GATT, compensation is provided for under certain circumstances. However, such compensation as provided for in Articles 19 and 24, paragraph 6, of GATT refers only to the withdrawal of certain trade concessions, notably increase in tariff rates, and their compensation by concessions of a similar nature. As pointed out above, a reference in Recommendation 103 to existing contractual and institutional arrangements does not imply that compensations should be granted only in the form provided by these existing arrangements: new arrangements can be worked out in the future. In
working out such arrangements, the following forms may be envisaged:

A. Comparable Trading Concessions

The GATT rules provide that the withdrawal of a concession in trading relationships may be compensated by granting a comparable concession or by permitting the beneficiary of the withdrawn concession to withdraw in turn a comparable concession. In view of existing trade relationships between developing and industrialized countries, the second alternative is not likely to have much practical effect in the context of trade relationships envisaged in the present study. The granting of compensatory concessions, on the other hand, may create a number of problems.

Unilateral tariff reduction by industrialized countries, especially where finished and semi-finished products are concerned, is frequently demanded by developing countries. But, in a given case of compensation, many developing countries may compete for a product eligible for compensatory import facilities. It is likely to be quite difficult to find an arrangement providing for sufficient import facilities in order to compensate for the losses incurred by a particular country in another trade position without discriminating against other developing countries.

It appears that any arrangement effectively compensating a developing country for a specific case of reduced access of one of its products to a given market by granting facilities for the access of another of its products to the same market will be confronted with the problem of discrimination. While the notion of unilateral trade advantages for the developing countries as a whole is gaining ground, a treatment differentiating between developing countries generally is not admitted, and even preferential treatment in the framework of association agreements is being heavily criticised.

It appears that the granting of trade preferences to developing countries in compensation for reduced access to a given market for some of their products should also be envisaged in the wider context of the negotiations for unilateral trade advantages to developing countries. Besides this, additional measures appear necessary.

B. Assistance in Adapting Export Industries

Stockholm Recommendation 103 provides expressly for "assistance in meeting the consequences of stricter environmental
standards" but states that they should be given "in the form of financial or technical assistance for research with a view to removing the obstacles that the products of developing countries have encountered" (emphasis added). It is quite evident that assistance for research is not sufficient to permit the necessary adaptation in the export industry of the developing country suffering from certain negative effects of environmental regulations. Assistance should be given in selecting the goods which are to be produced in the developing country, affected by the trade restrictions and which may find access to the market in the restricting country. The assistance should be in selecting the product, in the development of its production, in the marketing, and above all in financing of investment for its production.

The notion of assisting sectors of the economy to adapt to new situations in international trade is quite familiar also to national economic policies. A number of countries provide such assistance. Reference may be made in this context to the system of adjustment assistance provided for under the U.S. Trade Expansion Act of 1972. The experiences of such national programmes may be useful for the elaboration of international arrangements.

In certain cases the adaptation process may be less onerous, in particular in cases when relatively simple changes in their production methods (e.g., use of different chemicals) may make the product conform to the standards of the importing country.

In cases where environmental regulations have increased the costs of packaging and transport, the assistance may be channelled to developing more economical forms of packaging and transport or provide in other ways for lowering the production costs.

In the case of agricultural products the need for assistance may be considerable: where necessary, it should not only be limited to the production process by research, training and advice as to the appropriate use of certain chemicals, but be extended to the control and supervisory service in the exporting country. In fact, for many agricultural products it may be most advantageous if arrangements could be elaborated through which the agricultural goods are examined and tested already in the exporting countries, thus saving costs for packaging and transportation of goods which would be rejected by the authorities of the importing countries. For some agricultural products, like meat, some arrangements exist already.
C. Subsidies

In view of the fact that the primary aim of compensation should be to restore the trade position of a developing country which has been adversely affected by environmental regulations, continuous subsidy payments should not be envisaged. However, from the time at which the restricting measure is introduced to the time the affected developing country has gained a comparative position in another field, a trade loss will have been incurred by the developing country. The notion of compensation would imply that this loss should also be made up. It could be envisaged that in compensation for the trade losses incurred, financial contributions will be made to the adaptation project.
Existing institutional arrangements provide that in principle a country should consult with its trading partners if it intends to take measures affecting their trading position. This principle should also be applied in the case where environmental regulations may lead to negative effects on the trade position of developing countries.

Stockholm Recommendation 103 expressly provides that "countries should inform their trading partners in advance about the intended action in order that there might be an opportunity to consult within the GATT Group on Environmental Measures and International Trade, among other international organizations". Such consultations should place particular emphasis on the forms in which the countries primarily affected by the measures in question should be compensated and work out an action plan for restoring that country's previous trade position. The programme and the development projects necessary in this context may find a place in the framework of the bilateral programme for technical and financial assistance but the funds for such projects should not impinge on the existing funds.

This raises the question of how the funds for such operations could be provided. The funds required, particularly in the case of adaptation projects, may be considerable and since they should make up for trade losses suffered by a particular country, they should be over and above the amount this country would receive otherwise in the form of technical and financial assistance.

In cases where restrictions result from higher tariffs or taxes on particular goods one may well envisage that at least part of the increased revenue of the importing State should be devoted to compensation payments. But, in general, the purpose of the increased charges levied by the importing State on a particular product are either intended to discourage import or sales of this product altogether or are designed to cover the additional costs to communities resulting from the distribution of these particular goods.
One may also be tempted to try and find the beneficiary of the restrictive measures: if a country restricting the import of a certain good replaces this good by imports from a third country, the third country may to a certain extent be considered the beneficiary of the operation. In some cases (e.g. perishable goods) there may not be a beneficiary at all.

In general, it may be held that the country imposing restrictions on imports from a developing country should be aware of the damage it causes to the development of the latter. Even if these restrictions are fully justified and inevitable for the protection of the environment and the population of the importing country, this country should be aware of its responsibility as a member of the international community for the achievement of the basic objectives which this community has set in the field of economic development. It appears that the primary burden for compensation should lay on the country causing the adverse effects on trade.

Nevertheless, the question of financing cannot be resolved once and for all. The particularities of each case of compensation must be taken into consideration. In most cases the relationships in question will not just be bilateral but a number of countries will be concerned and affected by the measures in question in varying ways. The situation will be even more complicated when the negative trade effects do not result from the decision of one individual government but are the consequence of standards agreed upon internationally. It may then be asked whether in this case the international community as such should not compensate those of its less developed members who suffer losses in their trade position and their economic development.
The various measures that have to be taken concerning compensation may require the intervention of a number of different existing or new international institutions. Stockholm Recommendation 103 mentions on two occasions the GATT Group on Environmental Measures and International Trade and suggests that consultations take place within this body. Negotiations concerning consequences of trade restrictions due to environmental regulations may be conducted within this body or within the framework of UNCTAD. Questions relating to research and adaptation projects may be referred to UNDP, to a special programme to be set up, to UNCTAD, to UNEP or, again, to the GATT Group; for the standards and control of agricultural goods, FAO and WHO may best be suited to provide for or channel the necessary assistance. The question of compensatory financing as well as a certain number of other questions mentioned above may also be dealt with bilaterally, or a new body administering the compensation payments may need to be created.

Regional institutions, especially in the field of standardization, but also for assistance programmes and financing, may have a role to play. In this context, reference may be made to the activities of the OECD, the EEC and the Council of Europe.

At any rate, a considerable number of international organizations, UN bodies or Specialized Agencies may have to intervene in one way or another in the context of the compensation operation. It appears indispensable to have one organization particularly entrusted with coordinatng the various activities in this field. Here again, one may think of the GATT Group; however, UNEP in view of its general coordinating function in the field of environment and the universality of its membership, or UNCTAD for its traditional concern with this problem may best be suited for this purpose.
In spite of Stockholm Recommendation 103 calling clearly for compensation, the implications of this concept and its practical application in the field of trade and environment have not yet been sufficiently elaborated. The reasons that have led the Stockholm Conference to provide in Recommendation 103 for compensation for trade losses appear quite clearly. In view of the enormous problems with which the developing countries are faced in attaining the objectives of the Second Development Decade, compensation for trade losses due to environmental measures appears as justified and requiring an act of international solidarity and responsibility. The conditions and methods of the practical application of this concept have to be further elaborated and it would appear that the funds that may be required and the additional efforts necessary should be obtained without reducing the funds provided for in the framework of other programmes. In addition to these efforts, the concept of compensation in a general way may have a useful effect in helping to persuade the industrialized countries to support further the efforts of the developing countries for an amelioration of their trading position and in evidencing a general recognition by the industrialized countries of their responsibilities for the consequences which their preoccupation with their own environment may have for the developing countries.
A. Recommendation 103 (32) as proposed

In order to ensure that the growing concern with the environment does not lead to major disruption in international trade, it is recommended that governments take the necessary steps to ensure that:

- all countries present at the Conference agree not to invoke environmental concerns as a pretext for discriminatory trade policies or for reduced access to markets and recognize further that the burdens of the environmental policies of the industrialized countries should not be transferred, either directly or indirectly, to the developing countries;

- where environmental concerns lead to restrictions on trade, or to stricter environmental standards with negative effects on exports, particularly from developing countries, appropriate measures for compensation should be worked out;

- the GATT could be used for the examination of the problems, specifically through the recently established Group on Environmental Measures and International Trade and through its general procedures for bilateral and multilateral adjustment of differences;

- whenever possible (i.e. in cases which do not require immediate discontinuation of imports), countries should inform their trading partners in advance about the intended action in order that there might be an opportunity to consult within the GATT Group on Environmental Measures and International Trade. Assistance in meeting consequences of stricter environmental standards ought to be given in the form of financial or technical assistance for research with the aim to remove the obstacles that the products of developing countries have encountered;

- all countries agree that uniform environmental standards should not be expected to be applied universally by all countries with respect to given industrial processes or products.
except in those cases where environmental disruption may constitute a concern to other countries. Environmental standards should be established at whatever levels are necessary, to safeguard the environment and should not be aimed at gaining trade advantages.

B. Recommendation 103 as adopted

It is recommended that governments take the necessary steps to ensure:

(a) that all countries present at the Conference agree not to invoke environmental concerns as a pretext for discriminatory trade policies or for reduced access to markets and recognize further that the burdens of the environmental policies of the industrialized countries should not be transferred, either directly or indirectly, to the developing countries. As a general rule, no country should solve or disregard its environmental problems at the expense of other countries;

(b) that where environmental concerns lead to restrictions on trade, or to stricter environmental standards with negative effects on exports, particularly from developing countries, appropriate measures for compensation should be worked out within the framework of existing contractual and institutional arrangements and any new such arrangements that can be worked out in the future;

(c) that the General Agreement of Tariffs and Trade, among other international organizations, could be used for the examination of the problems, specifically through the recently established Group on Environmental Measures and International Trade and through its general procedures for bilateral and multilateral adjustment of differences;

(d) that whenever possible (that is, in cases which do not require immediate discontinuation of imports), countries should inform their trading partners in advance about the intended action in order that there might be an opportunity to consult within the GATT Group on Environmental Measures and International Trade, among other international organizations. Assistance in meeting the consequences of stricter environmental standards ought to be given in the form of financial or technical assistance for research with a view to removing the obstacles that the products of developing countries have encountered;

(e) that all countries agree that uniform environmental standards should not be expected to be applied universally by all countries with respect to given industrial processes or
products except in those cases where environmental disruption may constitute a concern to other countries. In addition, in order to avoid an impairment of the access of the developing countries to the markets of the industrialized countries because of differential product standards, governments should aim at worldwide harmonization of such standards. Environmental standards should be established, at whatever levels are necessary, to safeguard the environment, and should not be directed towards gaining trade advantages;

(f) that the governments and the competent international organizations keep a close watch on medium- and long-term trends in international trade and take measures with a view to promoting:

(i) the exchange of environmental protection technologies;

(ii) international trade in natural products and commodities which compete with synthetic products that have a greater capacity for pollution.
Chapter 1

1. The United Nations Conference on the Human Environment was held in Stockholm from 5 to 16 June 1972. It is referred to throughout this paper as the Stockholm Conference.

2. Report of Panel of Experts on Development and Environment held at Founex, Switzerland, on 4 - 12 June 1971 under the auspices of the Secretary General of the United Nations Conference on the Human Environment. (This and other sources cited are, except where otherwise noted, mimeographed conference papers.)


4. Industrial Pollution Control and International Trades. Background Paper No. 4 for Founex meeting (see Note 1 above) submitted by Secretariat of the General Agreement on Tariffs and Trade. GATT Studies in International Trade No. 1 (Geneva, July 1971).


7. The proposed and adopted texts of Resolution 103 are set out in the Appendix to this paper.

Chapter 2

9. See report cited in Note 4, Conclusion 1, page 22.

Chapter 3


11. See report cited in Note 3, paragraph 29.

12. Report cited in Note 3 refers in paragraph 13 to tendencies in favour of countries producing oil with low sulphur content.


14. The new Swedish taxes on bottles and cans are in this category.


18. See citation in Note 10.


Chapter 4

22. The acronyms not already explained are:

    FAO - United Nations Food and Agricultural Organization
    UNDP - United Nations Development Programme
    UNEP - United Nations Environment Programme
    WHO - World Health Organization

23. OECD - Organization for Economic Co-operation and Development. A procedure for notification and consultation by States on measures for the control of substances affecting Man or his environment was elaborated by the OECD Committee on Environment and approved by the Council of OECD in 1971.
The International Union for Conservation of Nature and Natural Resources (IUCN) is an independent international body, formed in 1948, which has its headquarters in Morges, Switzerland. It is a Union of sovereign states, government agencies and non-governmental organizations concerned with the initiation and promotion of scientifically-based action that will ensure perpetuation of the living world - man's natural environment - and the natural resources on which all living things depend, not only for their intrinsic cultural or scientific values but also for the long-term economic and social welfare of mankind.

This objective can be achieved through active conservation programmes for wise use of natural resources based on scientific principles. IUCN believes that its aims can be achieved most effectively by international effort in co-operation with other international agencies, such as Unesco and FAO.

The World Wildlife Fund (WWF) is an international charitable organization dedicated to saving the world's wildlife and wild places, carrying out the wide variety of programmes and actions that this entails. WWF was established in 1961 under Swiss law, with headquarters also in Morges.

Since 1961, IUCN has enjoyed a symbiotic relationship with its sister organization, the World Wildlife Fund, with which it works closely throughout the world on projects of mutual interest. IUCN and WWF now jointly operate the various projects originated by, or submitted to them.

The projects cover a very wide range from environmental policy and planning, environmental law, education, ecological studies and surveys, to the establishment and management of areas as national parks and reserves and emergency programmes for the safeguarding of animal and plant species threatened with extinction as well as support for certain key international conservation bodies.

WWF fund-raising and publicity activities are mainly carried out by National Appeals in a number of countries, and its international governing body is made up of prominent personalities in many fields.