

Trade and environment: between market and political failures

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Summary

- 1. Introduction**
- 2. Market solutions**
- 3. Collective decision making**
- 4. International trade policy**
- 5. Conclusion**

1. Introduction

1.1. Environment and trade

1.2. Different steps and periods

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1. 1. Environment and trade

Content of trade

Standards

Free trade of goods and services

Transaction costs

Free trade of factors of production

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1. 2. Different steps and periods

-1960 : **Efficient market**
Change in relative prices

1960 - : **Environmental economics**
Correction of market failures

1980 - : **Ecological economics**
Change in perspective

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2. Free trade

2.1. Principles

2.2. Basic model

2.3. Growth and sustainability:
The environmental Kuznets curve

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2.1. Principles

- Increased economic welfare through free trade
 - Volume of trade
 - Price effect
 - Specialisation effect
- Environmental protection seen as protectionism

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2.2. Basic model

- Thesis (Washington consensus)
 - Economic Welfare
 - Development
 - Poverty reduction
 - Environment protection
- Reduced to economic growth
- Antithesis
 - One fits all?

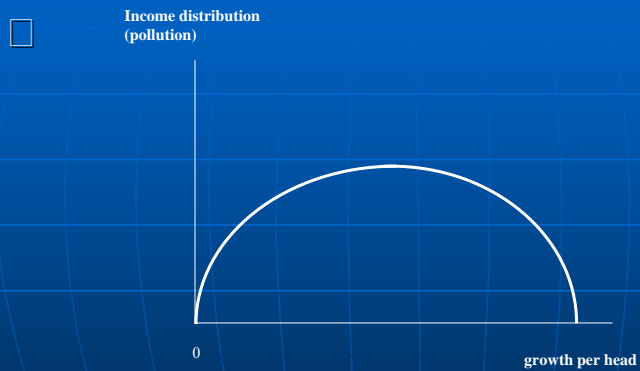
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2.3. Environmental Kuznets curve

- Theoretical arguments
 - Composition effect
 - Income effect
 - Threshold effect
- Empirical evidence

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Kuznets curve



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Empirical observations

Field	Polluants	Number of observations	Kuznets curve
Air	Energy	11	increasing
	CO ₂	52	increasing
	SO ₂ et SO _x	66	undetermined
	CO, COV, NO _x , NO ₂	29	increasing
Water	Nitrates etc.	13	undetermined
	Coliformes	5	undetermined
	M'iaux lourds	5	undetermined
Quality of live in urban areas	Access to health services and drinking water	11	decreasing
Waste		8	undetermined
Ressources	Deforestation	28	undetermined
	Biodiversity	5	undetermined

Source: Maradan, 2005, p. 69, Winslow, 2006, p. 6/7.

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3. International Trade Policy

Policy making based on microeconomics

Comparison of economic and ecological efficiency

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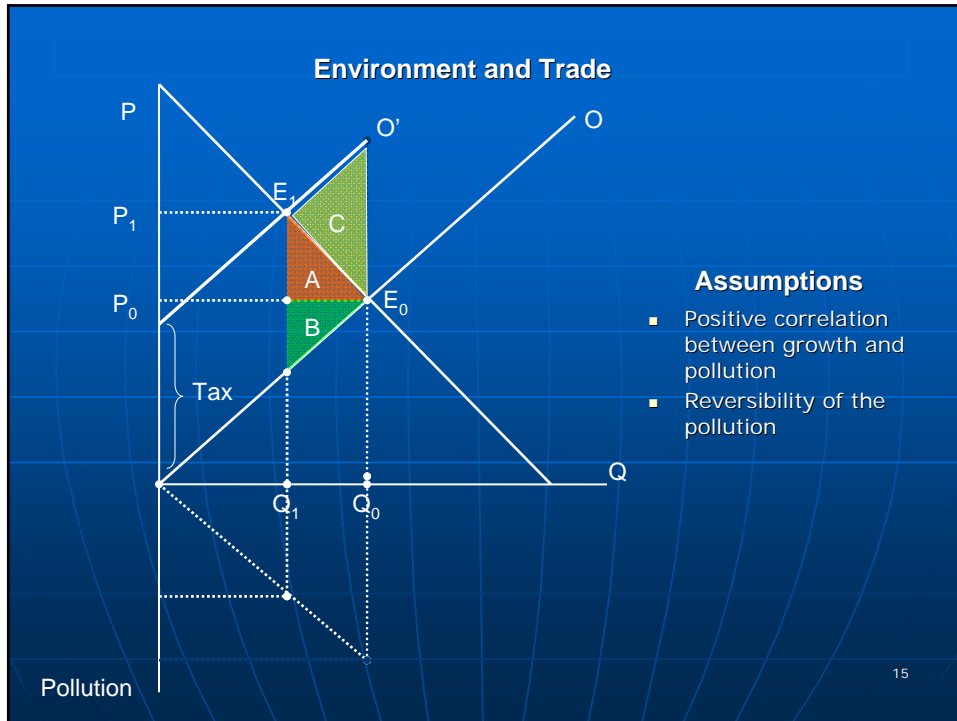
3.1. Policy making based on microeconomics

- **Aggregation problem**
 - Definition of the general interest
 - Ecosystems
- **Distributional issues**
 - Kuznets curve updated
 - Efficiency-equity trade off

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3.2. Comparison of economic and ecological efficiency

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4. Collective decision making

- 4.1. Policy options
- 4.2. Special interest groups
- 4.3. Social acceptability
- 4.4. How to deal with uncertainties?

4.1. Policy options

- **Command and control**
- **Incentives**
- **Voluntary agreements**
- **Policy mix**

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4.2. Special interest groups

Ranking of preferences* of Swiss economic associations and Swiss environmental associations for economic instruments

	Voluntary Agreements	Information Education	International Certificates	National Certificates	Taxes	Command and control
Economic Associations	1	2	3	4	5	6
Environmental Associations	5	4	6	3	2	1

* This ranking was established based on the Condorcet Winner (Cw) method

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4.3. Social acceptability

Main objections to incentives:

- Increased investment and costs
- Conflicts of objectives
- Reduced international competitiveness
- Delocalisation
- Administrative costs
- Different sectorial impact
- Consumer pays

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4.4. How to deal with uncertainties?

Two answers:

- **Markets**
Stock market revisited
- **Social cooperation**

What kind of participation?
Main actors

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Stock market: Main actors

Investors

- « green » investment

Financial intermediates

- Use of all available information
- Best in class

Firms

- New environmental and social norms

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Organisation	Main objectives
Global reporting	Global Reporting Initiative, Sustainability Reporting Guidelines on Economic, Environmental and Social Performances
Accountability	Promotion of standard AA 1000 for Governance (applied by Novo Nordisk, The Body shop, British Telecom e.g.) Institute of Social and Ethical Accountability
ISO	Promotion of norm ISO 1431 by the International Organisation for Standardisation Council on Economic Priority Accreditation Agency
CEPAA	Promotion of a Social Accountability standard ISP 8000
WBCSD	World Business Council for Sustainable Development Guide for firms

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Social cooperation

- **Asset evaluation**
 - first in class
 - Business model
- **SRI**
- **Stakeholder approach**

Participatory approaches: insurer of last resort

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5. Conclusion

Trade and Environment

- green Kuznets curve: an ideology
- policy oriented
- internalization of social cost
- Governance
- International trade and finance

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References

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