



NATIONAL ROUND TABLE ON THE ENVIRONMENT AND THE ECONOMY
TABLE RONDE NATIONALE SUR L'ENVIRONNEMENT ET L'ÉCONOMIE

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The Halifax Summit, Sustainable Development, and International Institutional Reform

Edited by

John Kirton and Sarah Richardson

National Round Table
on the Environment
and the Economy



Table ronde nationale
sur l'environnement
et l'économie

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**National Round Table on the
Environment and the Economy (NRTEE)**

1 Nicholas Street, Suite 1500
Ottawa, Ontario
Canada, K1N 7B7
Tel: (613) 992-7189
Fax: (613) 992-7385
E-mail: nrtee@web.apc.org

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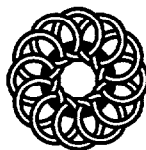


Table ronde nationale
sur l'environnement
et l'économie

March 1995

This document is a product of the work of the National Round Table on the Environment and the Economy's (NRTEE) Task Force on Foreign Policy and Sustainability, which culminated in a workshop in Montreal, February 27, 1995. The purpose of the workshop was to consider ways to integrate sustainable development considerations into the Halifax Summit in ways consistent with the priorities established at the G7 in Naples.

The workshop provided the NRTEE with the feedback and the variety of perspectives it needed to prepare its advice to the Prime Minister on sustainable development and the Halifax Summit, which was submitted in March, 1995.

The National Round Table on the Environment and the Economy is an independent federal agency, mandated by the Parliament of Canada and reporting directly to the Prime Minister. It acts as a catalyst in identifying, explaining and promoting in all sectors of Canadian society and in all regions of Canada, the principles and practices of sustainable development.

The NRTEE's Task Force on Foreign Policy and Sustainability promotes sustainable development in Canadian foreign policy, works on policy development within the federal government, and advises the Prime Minister on opportunities and ways to promote sustainable development through Canada's external relations. During the past year the Task Force targeted four major opportunities for advancing sustainable development in Canadian foreign policy: the GATT and World Trade Organization (WTO); Canada's foreign policy review; the Miami Summit of the Americas; and the G7 Summit.

Members of the NRTEE's Task Force on Foreign Policy and Sustainability:

Chair: Pierre Marc Johnson

Susan Holtz

John Kirton

Harvey Mead

Bob Page

Maurice Strong

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Introduction

Sarah Richardson and John Kirton

Since its emergence in 1975, the annual Summit of the world's seven major industrial democracies and the European Union has provided a regular forum for their heads of state and government to address the most pressing international issues of the day, and advance the process of finding solutions to them.

For the past 20 years, the members of the G7 have focussed primarily on the core economic issues of macroeconomic management, microeconomic modernization, multilateral trade, North-South relationships, and, more recently, assistance to post-communist countries. Yet they have also dealt with an expanding array of more political issues, including those related to the global environment. While at times the Summit has generated specific collective decisions, it has reliably provided a privileged forum for political leaders to hold private discussions among themselves, and together establish policy directions for the most powerful countries, international organizations, and the international community as a whole. With a year-long process to prepare, and the presence of thousands of journalists on-site to report the results, the Summit has done much to set the agenda, define the priorities, establish the parameters, and catalyze collective action in the international community.

During the past few years, the Summit has concentrated on the participation of, and financial assistance for, Russia (which first attended in 1991 at London as the USSR, and became a full participant in the G7's political discussions at Naples in 1994). It has also focussed on completing the Uruguay Round of multilateral trade negotiations and mobilizing assistance for Ukraine.

The 1994 summit in Naples, however, defined a new agenda. In identifying the subjects for discussion and decision at the next gathering, being held in Halifax, Canada, June 15-17, 1995, it placed the focus on two questions:

1. How can we assure that the global economy of the 21st century will provide sustainable development with good jobs, economic growth and expanded trade to enhance the prosperity and well-being of the peoples of our nations and the world?
2. What institutional changes may be needed to meet these challenges and to ensure the future prosperity and security of our people?

In addition, leaders agreed that Halifax would review progress on trade issues, specifically, continuing trade liberalization, cooperation among the World Trade Organization (WTO), International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), or World Bank, and the Organization for Economic Cooperation and Development (OECD), competition policy (in the OECD), investment rules, environment (in the WTO) and employment and labour standards. They further promised to report on their achievements in speeding up implementation of their national plans flowing from the UN Framework Convention on Climate Change. And they called for a "more flexible and less formal Summit."

Sustainable development, international institutional reform and related issues of trade and environment were thus clearly chosen as the centrepiece subjects of a leaders-driven, businesslike Halifax Summit. The first crucial question for Halifax is thus how to encourage environmentally sustainable

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development (a goal which includes good jobs and economic growth) through investments in appropriate technologies, energy efficiency improvements, cleaning up polluted areas, and job creation through enhanced environmental protection. The second critical question is how sustainable development can best be fostered through institutional reform of such organizations as the IMF, the World Bank, the WTO, the OECD, and various UN agencies.

Preliminary intergovernmental consultations among Summit governments during the autumn of 1994 and early 1995 confirm that their focus continues to be on international institutional reform, particularly as 1995 marks the 50th anniversary of the United Nations. The restoration and acceleration of economic and employment growth among virtually all G7 countries in 1994-95, the absence of serious exogenous economic crises in post-communist societies, the conclusion of the Uruguay Round of international trade negotiations, and the Mexican peso shock of December 20, 1994, further suggest that Halifax will indeed centre on those priorities specified at Naples. In addition, G7 governments will hold the third stand-alone meeting of their environment ministers in Hamilton between April 29 and May 1, 1995. Here the ministers will discuss environment-economy integration, global environmental priorities, and relevant international institutions.

It was natural that such critical topics and potentially historic processes would engage the energies of Canada's National Round Table on the Environment and the Economy (NRTEE). The NRTEE is an advisory body to the Prime Minister of Canada on sustainable development. It has a legislated mandate to act as a catalyst for change in Canadian society. Conscious of Canada's particular responsibilities as host of the 1995 G7 Summit, the NRTEE on February 27, 1995, convened a workshop in Montreal to examine ways to integrate sustainable development

considerations more fully into the Halifax Summit, in ways consistent with, and supportive of, the priorities established by the G7 at Naples.

The workshop was designed primarily to provide members of the NRTEE's Task Force on Foreign Policy and Sustainability with the analytical background and current information regarding the G7 and the international sustainable development agenda required for them to prepare advice to the Prime Minister for approval at the NRTEE plenary on March 9, 1995. It was also designed to exchange views with policy makers about the role that the G7 Summit system generally has played, can play, and should play regarding sustainable development objectives, with a particular focus on the Halifax Summit and the Hamilton Environmental Ministerial meeting. The agenda for the workshop is reproduced in Appendix A.

Among the participants at the workshop were senior Canadian government officials, academics, NGOs, NRTEE members, and representatives from business. Prominent individuals from Canada's G7 partners in the USA, Europe and Japan were included to provide international perspectives on the subject. A list of participants can be found in Appendix B.

The day's presentations and discussions were of exceptional quality. The dialogue thus prompted the organizers to prepare the proceedings in the form of this report so that the basic substance of the workshop might be made available to a wider audience. This report is based primarily on the presentations of speakers but also incorporates some of the background material that was prepared prior to the workshop.

Chapter 1 was prepared by The Honourable Maurice Strong, Chair of Ontario Hydro, Chairman of the Earth Council, member of the NRTEE, and formerly Secretary-General of the United Nations Conference on Environment and Development. In it, Mr. Strong presents some questions of

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international institutional reform required to deal with post-Rio sustainable development issues.

Chapter 2, "Sustainable Development and Canada at the G7 Summit," was written by Pierre Marc Johnson, a former Premier of Quebec, now practising law in Montreal and serving as Vice-Chair of the NRTEE and Chair of its Task Force on Foreign Policy and Sustainability; and John Kirton, an associate professor of political science at the University of Toronto and member of the NRTEE Task Force on Foreign Policy and Sustainability. This paper traces the deliberations and decisions on environmental and development issues at the Summits from 1975 to 1994, with a focus on Canada's contribution. A record of G7 members' compliance with summit decisions on the environment and development at the three most recent Summits, in Munich, Tokyo and Naples, was prepared by Ella Kokostis, a Ph.D. candidate in political science at the University of Toronto. It is included in this volume as Appendix C.

Gordon Smith, the Prime Minister of Canada's personal representative for the Summit ("sherpa"), and Deputy Minister of the Department of Foreign Affairs and International Trade in Ottawa, opened the conference. Mr. Smith provided the group with a frank and insightful assessment of Canadian preparations for the Summit to date, and an indication of the major agenda items as they were emerging in the preparatory process. His presentation is included as Chapter 3.

In Chapter 4, Mel Cappe, the Deputy Minister of the Environment in Ottawa, suggests some ways that the NRTEE could make a particularly useful contribution to the process of defining the agenda for the G7 Summit. The Deputy Minister highlights the difficulty in framing issues of sustainable development in the G7 agenda, posing the question of whether sustainable development should be integrated into the G7 agenda, or should

stand alone as a separate agenda item. In order to frame advice to the Prime Minister, he suggests the NRTEE should, in the short term, focus on developing a concrete web of actions, commence a longer term process, and consider a general statement of principles to guide future work.

In Chapter 5, Ved Gandhi, the Assistant Director of the Fiscal Affairs Department of the International Monetary Fund, in Washington, DC, introduces the participants to the purposes of the Fund and to some of the work that the Fund has undertaken on the environmental implications of its activities. Mr. Gandhi stresses the need for international monetary stability, exchange rate stability, and sound macroeconomic policies, in the achievement of effective environmental protection. Although the Fund attempts to consider some environmental measures that relate to its central task, it does not normally review or comment on national or international environmental policies.

Len Good, the Executive Director for Canada at the World Bank, and formerly Deputy Minister of the Environment in Ottawa, provided Chapter 6. Mr. Good addresses the issue of reform of International Financial Institutions (IFI) from three vantage points: shock management; policy responsiveness; and overlap and duplication. Under the latter category, Mr. Good considers the relationship between the World Bank and the IMF. He concludes that IFI reform can cover a broad spectrum of issues; and that in order to be successful, policy makers must define the problem to be resolved, possibly from one or more of these vantage points.

In Chapter 7, Robert Page, the Dean of Environmental Design at the University of Calgary, member of the NRTEE, and member of the federal government's International Trade Advisory Committee (ITAC), who has a long-standing interest in issues of trade and environment and institutional reform, examines the prospects for the

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WTO in addressing effectively some of the complex issues of trade and environment. Dr. Page suggests that although the traditions of the trade community have been paramount in the General Agreement on Tariffs and Trade (GATT), with the creation of the World Trade Organization there is an opportunity to build into the structure institutional changes necessary to consider trade alongside other important issues which it impacts, such as the environment.

In Chapter 8, Richard Eglin, the Director of Trade and Environment at the World Trade Organization in Geneva, highlights three areas for consideration by the NRTEE in preparing advice to the Prime Minister on trade and environmental issues for the G7. Mr. Eglin first sets out the WTO's internal schedule and agenda on trade and environment. He then points to the dangers of examining trade and environment issues as a divisive North-South issue. Finally, Mr. Eglin notes some institutional characteristics of the WTO and its process which play into the trade and environment debate.

Dan Esty, a Professor of Environmental Law and Policy at the Yale School of Forestry, a Professor of Environmental Studies at the Yale Law School and Director of the Yale Centre for Environmental Law and Policy, contributed Chapter 9. Mr. Esty draws on his considerable experience in government (with the US Environmental Protection Agency) and law, to argue that the international environment is not adequately managed under the present system of treaties, conventions, agreements, agencies, programs and institutions. This system, he concludes, is riddled with overlap and confusion. He suggests that the international system requires a new Global Environment Organization to adequately manage and ensure stewardship of the world's environment.

In Chapter 10, Jim MacNeill, the Chairman of the International Institute for Sustainable Development, Senior Advisor to both the Administrator of the

United Nations Development Programme (UNDP) and the International Development Research Centre (IDRC) and formerly the Secretary-General of the Brundtland Commission, takes issue with Mr. Esty's proposals. While Mr. MacNeill agrees with the need for reform in the international management of the environment, he argues that one should strengthen and build on existing institutions, in particular United Nations Environment Programme (UNEP), rather than construct new bodies.

Chapter 11 was prepared by David Hale, the Chief Economist for Kemper Financial Companies in Chicago. He advises the group's investment advisory division on the economic outlook and a wide range of public policy issues. Mr. Hale identifies three characteristics of the post Cold-War era that have set a new international context for the G7 and will have a bearing on the issues that are considered in Halifax. Among these characteristics are the relative poverty of the public sector vis-à-vis the private sector, changes in capital flows to emerging and new economies, and the resurgence of ethnic warfare. All of these characteristics frame the immediate political and economic agendas of this and future Summits.

Chapter 12 was contributed by Rudolf Dolzer, the Ministerial Advisor in the Office of the Chancellor of the Federal Republic of Germany. Dr. Dolzer considers the political realities of the prospects for reform of international institutions and the UN system in the short term. He concludes that it may be unrealistic and over-ambitious to expect substantive reform at Halifax. Yet the G7 Summit in June can begin a process to consider some of the specific questions that need to be addressed, including the roles of current environmental institutions, as well as the mandates of the international economic and financial institutions. The initiation of that process would represent a success for Halifax.

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In Chapter 13, Masao Kawai, the Head of Chancery of the Japanese Delegation to the UN in New York, summarizes his perspective on the main issues underlying the debate over international institutional reform for Halifax. These include international economic globalization and a consideration of whether the Bretton Woods Institutions are equipped to deal with these new economic realities. A related, contextual issue is the absence of a coherent global strategy for economic development. Finally, international institutions have as yet been unable to respond adequately to emerging global issues, of which the environment is only one. The need for increased coordination at the international level is clear. The political will must exist to carry out some of the necessary reforms.

In Chapter 14, Sarah Richardson, Foreign Policy Advisor at the NRTEE, and John Kirton, present the main conclusions of the Task Force on Foreign

Policy and Sustainability. These conclusions reflect many of the important observations, comments and questions arising out of the presentations and discussions at the workshop. They also take into account the other preparatory work and analysis of the Task Force. The comments set out in Chapter 14 reflect closely the substance of the advice that the NRTEE sent to the Prime Minister of Canada on March 21, 1995.

The views expressed in this report are those of the authors alone and do not necessarily reflect the positions of their respective organizations, the National Round Table on the Environment and the Economy or the Government of Canada. Rather, they represent an intellectual contribution, from a diverse array of distinguished experts, to the important deliberations on sustainable development and international institutional reform which G7 leaders and governments will have, before, during and after the Halifax Summit.



Background

I Post-Rio Sustainable Development and the Summit

Maurice F. Strong

Introduction

The state of the world has changed since the UN Conference on Environment and Development (UNCED), which was held in Rio de Janeiro in June 1992, and not necessarily in ways which are consistent with the hopes and aspirations raised there some two-and-a-half years ago. This has affected the political realities confronted in contemplating what can be done on the occasion of the 50th anniversary of the Bretton Woods Institutions and the United Nations itself, to reshape those institutions and to prepare for the world that they will confront in the next 50 years. The world that will exist over the next 50 years will be very different from that which gave birth to these institutions in the aftermath of World War II.

Two-and-a-half years after Rio, it is still too early to pronounce judgement on its final results. These results will depend on what governments and others do now to give effect to the agreements reached at Rio, including the statement of principles in the Declaration of Rio and the comprehensive program of action, Agenda 21, which was designed to give effect to those principles, and the two international conventions on Climate Change and Biodiversity.

The process of achieving consensus among 180 governments is not easy, and some of the proposals that went to UNCED, particularly those addressing patterns of production, consumption, energy and population, were watered down to get consensus. Nevertheless, the agreements reached

at Rio represent the most comprehensive and far-reaching program for the future of the earth ever agreed to by governments, and the fact that these agreements were reached by virtually all the nations of the world, most of them represented at the highest political level, surely gives them a unique degree of political authority. And in a world which has no global government and no enforceable system of international law, political authority is the ultimate authority, however weak it might be perceived to be. However, political authority does not guarantee that these agreements will be implemented. So far, the record is mixed at best. To some degree this is understandable. A plethora of immediate and pressing political and economic concerns have continued to pre-empt the attention of governments and citizens since Rio.

Most disappointing is the lack of response by the Organization for Economic Cooperation and Development (OECD) countries to the needs of developing countries for the additional financial resources which all governments at Rio agreed were required to enable developing countries to make their transition to sustainable development. The rich have seldom felt poorer than they do today. Indeed, there is no one who feels so poor as the person who is a little less rich today than he was yesterday, and that is the current mood of industrialized societies.

What is particularly discouraging to developing countries is that progress towards meeting their needs has been set back since Rio, as a number of donor nations have reduced their Official Development Assistance (ODA). All the signs currently point to further reductions. Moreover, resources that might have been available for development assistance are being diverted to meet growing emergency humanitarian needs around the world, as well as the needs of the countries of the former Soviet Union for the re-building of their shattered economies.

Although there is more competition for a diminishing pot of ODA, private capital flows are increasing and are already far in excess of ODA. In the years to come, private capital will certainly be the primary source of external capital for developing countries. Therefore, it is very important that these private capital flows be sensitized and responsive to environmental and sustainable development needs. If they are not, the investments being made now in the rapidly growing economies of the developing world will simply not be made in accordance with the principles of sustainable development.

There have been some positive developments since Rio. Many developing countries, despite their disappointment with the amount of assistance available, have taken steps to implement many of the measures called for in Agenda 21. This action was stimulated not only by Rio, but also by a much greater awareness of their own environmental problems and concerns. Many developing countries are experiencing serious environmental degradation, particularly in their larger cities, and the environment is becoming an issue of political significance at the local level. At the international level, the United Nations Commission on Sustainable Development (CSD) has been established as the forum for continuing

governmental consultations and cooperation in following up and implementing the agreements reached at Rio. A High-level Advisory Board on Sustainable Development has been established to advise the UN Secretary-General on Agenda 21 implementation issues. However, without pronouncing any final judgement, these mechanisms are off to a somewhat slow start.

The Global Environment Facility and a New Role for the Trusteeship Council

Following the Earth Summit, agreement was reached, after protracted and difficult negotiations, to replenish the Global Environment Facility (GEF) with unique modalities for governance to give developing countries a larger role than that which they have in the Bretton Woods Institutions. The GEF is a far cry from the much more ambitious vision of the late Rajiv Gandhi when he proposed the creation of a "Planet Protection Fund," but it provides a foundation on which the international community can continue to build. The imperatives of the future will inevitably demand more enlightened, innovative, and substantial responses to the resource needs of developing countries than have yet been forthcoming on the part of the major industrial nations.

On another front, *Our Global Neighbourhood*, the recently released Report of the Commission on Global Governance,¹ recommends that the global commons should be subject to trusteeship exercised on behalf of the world community by the nations of the world collectively. It is not possible to exercise national sovereignty over the global commons on a unilateral basis. The nature of the responsibilities involved makes it appropriate for the global commons to be administered by a

¹ The Commission on Global Governance, *Our Global Neighbourhood* (Oxford: Oxford University Press, 1995).

principal organ of the United Nations. The Commission therefore proposed that the Trusteeship Council, now free of its original responsibilities, be given the mandate of exercising trusteeship over the global commons and over the integrity of the major ecosystems on which common survival and well-being depend. This would seem to be the ideal function for the Trusteeship Council, which is already a principal organ of the UN. In practical terms, the Council would exercise trusteeship over outer space, the oceans, and the various environmental treaties and agreements related to the care and preservation of the integrity of major global ecosystems.

As a result of Rio, the UN Framework Conventions on Climate Change and Biodiversity have come into force. However, these treaties were negotiated only as frameworks and were considered, at the time, to be only a start. They are a very good start, but both treaties require the further negotiation of protocols. The first meeting of the Biodiversity Convention has taken place, and some very modest progress has been made. In March, the first meeting of the Parties of the Climate Change Convention will occur in Berlin. Unfortunately, prospects for Berlin are not promising. At a minimum, the meeting should continue the process and the parties should be given the mandate to negotiate protocols. The process may go more slowly than it should, however, to move the process along would in itself be an important, though modest, accomplishment.

There should also be some private sector initiatives announced in Berlin. For example, perhaps an initiative for the creation on a private basis of a global emissions trading organization might be put forward. Ontario Hydro has recently joined with other electrical utilities to create a global energy efficiency collaborative which might receive some major impetus in Berlin. Thus, Berlin can also be

used as an occasion for giving visibility to private initiatives that would lend some impetus to, and support for, the official process.

Role of Civil Society

As stated in *Our Global Neighbourhood*, when speaking of issues related to global governance and international institutional reform, it is imperative "to take account of the emergence of global civil society. The crucial role that these new actors play in the management of global affairs requires a reassessment of the relationship between the UN and its family of organizations and the growing worldwide array of organized non-state activity."² The Commission on Global Governance recommended that the functions of the Trusteeship Council in its new role be examined to determine how best it might benefit from contributions of civil society.

Many of the most exciting and promising post-Rio developments are occurring outside of governments, where there has been a virtual explosion of activities and initiatives on the part of grass-roots organizations, citizens groups and other key sectors of civil society. For example, engineers and architects, through their international bodies, have committed their professions to sustainable development as a central professional issue, and to cooperative programs designed to support the implementation of Agenda 21 in their sectors. The Business Council for Sustainable Development has merged with the International Chamber of Commerce's World Industry Council for the Environment, to form the World Business Council for Sustainable Development, which now includes among its members over 120 chief executive officers of the world's major corporations. In many respects, the most enlightened business leaders are ahead of

² *Ibid.*, p. 253

governments. Many of the world's cities are establishing their own Agenda 21s under the aegis of the International Council of Local Environmental Initiatives. And similar initiatives are proliferating at the community and sectoral levels in every region of the world.

Particularly promising has been the initiative of more than 80 countries in establishing National Councils of Sustainable Development, or similar bodies, as multistakeholder forums in which representatives of government and various key sectors of the civil society can consult and advise on the development and implementation of Agenda 21 at the national level, and provide guidance and support for similar initiatives in local communities. Canada's own body, the National Round Table on the Environment and the Economy, set the example for many of these.

Another unique organization is the Earth Council, headquartered in San José, Costa Rica. It is a new kind of global, non-governmental organization, designed to act as a catalyst and to facilitate and support the implementation of, and follow-up to, the results of Rio. Its principal mission is to help to link people at the community and grass-roots level with the broad policy- and decision-making processes which affect them, to amplify their voices in these processes, voices that are too seldom heard or heeded, to support their own initiatives.

Redefining the Global Economy

These are all hopeful signs, but they are not enough. The evidence produced for the Earth Summit made it clear that what is needed is fundamental change in the dynamics and direction of economic life based on changes in economic behaviour at every level of society. The changes called for at Rio are fundamental in nature, and fundamental change does not come quickly or

easily. And certainly that is true in the present climate. It is therefore not surprising, though nonetheless disappointing, that a basic change of course has not yet occurred. Until it does, despite rhetoric and good intentions, the world will continue to move in a direction that is simply not sustainable.

Meanwhile, there have been some profoundly important changes in the dynamics of the global economy which are re-shaping the economic and political geography of our industrial civilization and defining its future. Prospects for achievement of the goals set at Rio, and for the implementation of Agenda 21, are inextricably linked to the complex issues through which these changes are occurring.

One of the most important dimensions of these changes is the dramatic shift in the configuration of economic and political power now taking place between the developing countries and the traditional industrialized countries. There will be setbacks, as the institutional structures of these rapidly growing countries are, in most cases, simply not adequate to maintain the present momentum of their growth.

Nevertheless, today developing countries are leading the revitalization of the global economy. Developing countries are growing. Not all of them, to be sure, for the economic growth of many of the poorest, as well as some of the most conflict-ridden countries of Africa, has been stalled or has declined. But in Africa, too, notably in Uganda and Ghana, some economies are on the move again, and with the historic transformation to multiracial democracy in South Africa, that country is expected to lead southern African into a new era of economic progress. But most of the new growth in the developing world is occurring in Asia and Latin America, although one of the most dynamically growing economies is that of India.

A recent World Bank report points out that even in the two decades (1974–1993), developing countries as a whole grew at a rate slightly higher

(3%) than the rich industrial countries (2.7%) and are expected to grow by almost 5% per year in the next decade, compared to 2.7% in the traditional industrial countries.

On this basis, as noted in *The Economist's* survey of the global economy in January 1995, China would replace the United States as the world's largest economy by the year 2020, and nine of the top 15 economies of the world would be, in aggregate (not per capita) terms, what are considered developing countries today; for example, India would replace Germany as the fourth largest economy. The same survey projects that developing countries' share of world output will grow to 62% by the year 2020, while that of the rich industrial countries will decline to 37%. Although projections are always somewhat dubious in terms of their reliability, there is little doubt that these numbers are identifying a trend.

The G7 today does not include a single developing country. This does not mean that it is unimportant, merely that it has limitations. The current "world order" continues to be rooted in the past, particularly our notions as to North-South relationships, and the G7 can no longer take decisions that will simply be accepted as binding on the rest of the world.

The major economic growth to the South is evoking mixed feelings and responses from the traditional industrialized countries. On the one hand, export industries in OECD countries have welcomed, and been quick to exploit, the opportunities that have opened up in the rapidly growing economies of the developing world. A recent OECD report postulates that if China, India, and Indonesia continue to grow at current rates, without changing current patterns of income distribution, some 700 million people in these three countries alone (more than the combined populations of America, the European Union and Japan) will, by the year 2010, have an average income equivalent to the median of the

European Union countries. This compares with only 100 million today, and is evidence of the profound change that is now taking place.

On the other hand, OECD countries are increasingly looking on developing countries as competitors. Low labour costs and rising productivity are making southern manufactured products highly competitive in northern markets, helping to keep consumer prices down but evoking strong and growing resistance from those in the industrial countries who see their investments and jobs at risk.

Trade and Sustainable Development

Despite the movement toward a global economy and more open trading system, there are some signs of a "fortress North" mentality developing in the wealthy industrial countries. While this mentality is not yet dominant, it does not bode well for future relationships with the developing world.

At the same time, environmentalists have protested that free trade will encourage growth in developing countries based on models that are unsustainable, at the expense of the environment; further, it has been suggested that free trade will tend to lower overall environmental standards. These concerns resulted in unilateral action on the part of the United States to ban tuna imports from Mexico, and led to incorporation of the "side agreement" on the environment in the North American Free Trade Agreement (NAFTA), and the creation in Montreal of a fine mechanism, the North American Commission on Environmental Cooperation for monitoring, reviewing, and initiating cooperation with respect to these issues.

Developing countries fear that environmental concerns may be used as a pretext to implement new protectionist measures which would inhibit

their development and exports. And the position taken by some environmentalists — such as those who recently elicited voluntary bans on lumber from British Columbia, in Canada — lends credence to those fears. Not all restraints on trade are official; increasingly, unofficial restraints can have an important effect.

All of this means that the environmental dimension will become a much more important and controversial factor in trade negotiations, and in their implementation, in the period ahead.

Rich, Poor, North, South

Approaching the 21st century, the common need to protect the environment and life support systems of our planet provides a new dimension to the North-South relationship. Industrialized countries have a responsibility to reduce their demands on the Earth's resources and environment to leave "space" for developing countries to grow. The rights of developing countries to grow must not be denied, nor should such growth be constrained by conditions imposed on countries in the name of the environment. However, if the developing countries are becoming the primary engines of economic growth, how they manage their growth will be the key to a common environmental future. The battle to ensure a secure environment for all the people of earth — rich, poor, North, South — will be won or lost in the developing world, and most particularly in Asia. What happens there should concern us all.

New Dimensions of Cooperation

This calls for a series of special measures. It has never been feasible simply to look to more foreign aid as the answer to the external resource needs of developing countries. The traditional foreign-aid syndrome must be shed, and North-South relationships must be examined in a totally new

context of enlightened, mutual self-interest, and common and shared, though differentiated, responsibilities. Special measures are necessary to reduce the debt burdens of the poorest countries. Innovative new mechanisms and instruments for transfer of financial resources and technologies are also needed. For example, a global system of tradeable emission permits is one of the most realistic and potentially acceptable means to channel funds for environmental protection to the places where they can be used most cost-effectively. And these places will, to a large degree, be in the developing world.

A particular imperative is the need for all governments to make radical changes in their policies and expenditure priorities. Traditional systems of incentives and penalties by which governments motivate the economic behaviour of individuals and corporations, must be reoriented. Without that, the objectives of sustainable development will not be achieved.

Environmentalists must make the hard case (as well as the more distant security case) for the environmental and sustainable development. The soft case is a valid one; but it is not sufficient. For example, the case for energy efficiency is a win-win situation. The developing countries simply will not be able to meet their needs for new investment and energy on the traditional basis. In many countries, the necessary funds are not available to meet projected capital needs for energy alone. Energy efficiency is one of the primary answers. The initiative to create a global energy efficiency collaborative is one of the possible responses to the hard case for sustainability.

The environment cannot be left to environment ministers, even less can sustainable development. One of the disappointments of Rio is that the Commission for Sustainable Development has become largely a gathering of environment ministers. Environment ministers are necessary.

But environmental ministries alone cannot care for the environment. They make an important contribution; but it is through economic and sectoral policies and the management of economic life that the environment is truly affected. And that is where the real changes have got to occur.

Environmental ministries and agencies have to sit at the table and help provide the environmental input to that process. But they are not going to be able to exercise the power required to implement the changes that are necessary.

Nations everywhere are increasingly being forced to recognize the limited capacity of governments to meet the expectations of the electorate, an electorate which, in many cases, is unwilling to accept new taxes, and which insists upon a greater degree of cost-effectiveness, transparency and accountability from government. Such concerns are directly related to the movement toward more democratic forms of government that has taken place throughout the world.

A series of paradoxes is developing which will soon confront both industrialized and developing countries with some very painful tensions and challenges. While efficient and competitive economies produce more gross national product, the benefits accrue disproportionately to the minority who have capital and knowledge to deploy. This class is highly mobile and those in it can move their assets and activities across national borders. They will exercise these options when they have to bear too great a burden of taxes to support the cost of maintaining a disproportionately large and costly government, and of providing welfare for the elderly, the needy, the under-skilled and the unemployed. The latter are, largely, not mobile, and, indeed, there are more and more barriers to their movement.

Migration will become an issue of growing importance in the world community, and an issue of growing controversy. It is appropriate that it be

on the Halifax agenda, as it will likely be on the international agenda for a long time. The fact that modern, competitive, industrial societies require proportionally less labour and more capital and knowledge will, ultimately, lead to a widening and entrenchment of the rich-poor gap, not only between nations, but within industrialized nations.

Democratic market capitalism must find ways of dealing with these emerging dilemmas or risk becoming the victim of its own success. It must become just as effective at meeting society's needs as it is at generating economic growth. Where large sections of society are denied the ability to participate in the benefits of the prevailing economic system, that system will not be sustainable.

Institutional Reform: Managing Interdependence

The unprecedented complex of challenges faced by national societies becomes even more daunting as we confront the implications for global governance. For, as the realities of global interdependence have opened up vast new opportunities accompanied by a new generation of global risks, they have also imposed new constraints on the capacities of individual nations to deal with these. This makes cooperation among nations more and more necessary, and requires a new look at the international organizations and processes through which nations cooperate to manage these issues.

The G7 Summit meeting in Halifax, the 50th anniversary of the Bretton Woods Institutions, and the 50th anniversary of the founding of the United Nations provide a timely opportunity to review and revisit the structure and mandates of these organizations which constitute the principal system of multinational organization at the global level. This must be accompanied by a review of the

relationship of these global institutions with the large number of regional and special purpose organizations outside of the United Nations and Bretton Woods system, which now play roles of growing importance. Few of these other institutions existed 50 years ago when the UN and the Bretton Woods Institutions were created.

These issues were examined in depth by the Commission on Global Governance, co-chaired by Prime Minister Ingvar Carlsson of Sweden, and former Commonwealth Secretary-General Sir Shridath Ramphal of Guyana, of which I was privileged to be a member. I believe that its report has made an important contribution to this dialogue. What is clear from this analysis is that the global system of governance needs substantial strengthening and reorientation if it is to provide the services that the world community will require of it in the period ahead.

The issue of reform of multilateral institutions, principally the United Nations and the Bretton Woods Institutions, is now the subject of a great deal of attention. Indeed, it has become a veritable industry. Many proposals are being made for fundamental changes, particularly for changes in the Charter of the United Nations. Certainly such changes are necessary and, at some point, inevitable. But the difficulties that must be surmounted are formidable. An agreement will not be achieved quickly or easily in the present political climate.

We must not make the mistake in opening up these processes of constitutional revisiting to freeze them at the present status quo. In a world of rapid change, any new Charter changes must incorporate processes for continued reopening and revisiting such changes in light of the developments that are bound to occur in the geopolitical balances within our world community.

A process must be set up to include a task force with other key countries (not simply members of

the G7), and with the assistance of their supporting organizations, including the OECD. The task force should have a mandate to explore the implementation of a continuing process for review and reorientation of the existing multilateral system. That is the best we can hope for. To try to crystallize a consensus today would likely result in a lower level than was achieved 50 years ago. The worst thing to do is try to crystallize political consensus when the realities of that consensus do not support the desired conclusions.

Making the UN More Businesslike

In the meantime, much can be done to ameliorate the effectiveness and the service of the UN to its member states and the world community through improvements in its management. Governments must strongly support management changes that will make the UN system more effective. And the same is true for the Bretton Woods organizations. More effective management of these organizations will give governments, and citizens, greater confidence in them, and improve the prospects for agreement on the kind of charter changes that are needed.

These charter changes must give effect to the new configuration of economic and political power that has emerged since the institutions were established a half-century ago. The United Nations Security Council and the composition of the Boards of the World Bank and the IMF must reflect the growing power of the developing countries, as well as the leading roles of Japan and Germany. It will require a major act of statesmanship, equivalent to that which led to the creation of the Bretton Woods Institutions and the United Nations in the aftermath of World War II, to effect these changes in a way which will provide all member states — the major powers, the middle powers and the poor and the weak — with confidence in the

integrity of the organizations and their capacity as well as their will to meet the needs and protect the interests of all nations. To apply selectively the principles of the UN Charter simply on behalf of those who happen to enjoy the confidence, or engage the interest and attention, of the greater powers at a given moment in time is not adequate as the basis for the effective functioning of an organization. Today, political conditions are not conducive to such an act of statesmanship. Statesmen are unwilling to lead in this process of change. Perhaps that leadership will emerge at the G7.

The system will not function effectively if it is viewed by the majority as responding primarily and selectively to the interests and priorities of the powerful few; nor can it be effective if the most powerful feel that the system is hostage to the numerical majority of its membership and hostile or apathetic to their interests as the minority. There must be a balance in any process of constitutional change. The poorest and weakest of nations, and those experiencing troubles that impinge on their national viability, should be a particular priority for attention. In these times, this will include some of the least developed and most disadvantaged nations of Sub-Saharan Africa. Special attention, too, should be devoted to protecting and advancing the rights of minorities, particularly of women and indigenous peoples.

Greater provision must also be made for dialogue and cooperation with the non-governmental organizations of civil society, building on the experience at the Earth Summit, in which we had the engagement of more non-governmental organizations than had ever participated in any other world conference. And this precedent was furthered at the UN Conference on Population and Development in Cairo. More reality should be accorded to the "We the people...." introduction to the preamble to the UN Charter, and this can be

done without in any way infringing on the basic power and responsibilities of member states.

Conclusion

Fundamental change requires political will. While professionals realize the need for fundamental change, political realities mitigate against it. And the process of change is essentially a political one. We will not fail because of the lack of the ability of people to design the appropriate changes. The real task is to crystallize the kind of will to make the changes. Such a will does not exist today; there is no viable consensus to enable us to make the kinds of changes that are necessary.

Much of the desirable change in the international system can be achieved by changes in management and changes in performance. These changes can and should be made. The need for fundamental change should not be used as a screen for not doing what we can do at the level of the existing constitutional mandates. For example, the UN could operate more effectively with less than half of its present staff. It needs change now, not just for the process of change, but to re-establish confidence and the political will to make the larger changes.

There is another change which may seem sentimental to a group of professionals. In looking at the larger issues, we do have to recognize that the motive of political will, and human and social will really is based on the deepest moral, spiritual and ethical principles to which human beings of various persuasions respond. In the final analysis, we cannot wait for catastrophe to trigger the kind of fundamental changes that are necessary. Normally change responds to crisis. For example, the world cannot afford a global crisis, nor do we need to hold a post-mortem to decide whether or not the science on global warming has been absolutely

Post-Rio Sustainable Development and the Summit

accurate, after all, most of the actions we have to take are good for us anyway.

So, what is going to be the trigger? A greater rediscovery of the basic moral and ethical principles that underlie human behaviour, conduct and motivation in every society provides the most hopeful prospect. And it is not a dim prospect. It is interesting that the resurgence of fundamentalism is perhaps a manifestation of that from which we can learn something.

So while it is important to try to design a new, sophisticated and promising structure for the reform of our multilateral organizations for the

future, the realization of this will depend on fundamental changes in the perception, in the values, in the behaviour, and in the underlying motivations of that behaviour, on the part of peoples and societies. And until these change, we will not be able to effect the realization of that larger vision that will inspire us, and that hopefully will inspire the G7 in Halifax.

Maurice Strong is Chair of Ontario Hydro, Chairman of the Earth Council, member of the NRTEE and former Secretary General of the United Nations Conference on Environment and Development.

2 Sustainable Development and Canada at the G7 Summit

Pierre Marc Johnson and John Kirton

Over the past two decades sustainable development, in both its development and environmental dimensions, has been a substantial, and at times central, part of the agenda and achievements of G7 Summits. Development and the environment have also served as leading areas of Canada's distinctive contribution within this important global forum. In considering how Canada might use the forthcoming Halifax G7 Summit to advance major sustainable development priorities, it is useful to review the record of past Summits, to identify what development, environmental and related economic issues have been dealt with and received collective approval at the G7, and what Canada's particular role in this process has been.

This paper conducts such a review. It focusses on the development and environmental passages of the final communiqués, and, where possible, the leaders' actual discussions, at the annual G7 leaders' gatherings from 1975 to 1994. It thus deals with the success of the G7 leaders, and Canada, in setting priorities, establishing parameters, and securing agreement for sustainable development at the Summit itself. The important question of how fully and how rapidly these communiqué-encoded commitments have been implemented in the post-Summit period and have affected the domestic policy of the members, is left to Appendix C in this volume.

This review of the Summit agreements on sustainable development subjects suggests seven

central conclusions about the G7's and Canada's past record of achievement in this realm.

In the first place, sustainable development is a longstanding and recurring Summit issue. The G7 Summit has dealt with not only traditional development issues, but also with new environmental ones from the very start. The initial concern with energy conservation quickly gave way to attention to environmental issues directly (in 1978), and to the relevance of economic instruments to accomplish environmental goals (in 1979 and 1980).

Second, the concept of sustainable development has been accepted by the G7 from a very early stage. The first elements appeared at the Ottawa Summit of 1981, well before the Brundtland Commission's report appeared. Thus, the G7 has led rather than followed global political and public awareness of the new philosophy and its priorities.

Third, the G7 leaders have over the years collectively endorsed an impressive array of practical proposals for advancing sustainable development. Many of these proposals retain their relevance at present. The following five are of particular interest:

1. As early as 1984, the Summit leaders recognized the need to develop a separate process for their ministers and experts to forward the G7 environmental program, and by 1992, regular meetings of G7 environment ministers had begun.
2. The 1987 Summit first raised the trade-environment link and recommended the facilitation of trade in

low pollution products, industrial plants and environmental protection technologies.

3. The Summit first dealt with CO₂ emissions in 1979, and the following year recognized the importance of fuel-efficient vehicles, strengthened standards for fuel efficiency, and related research and development in reducing such emissions.
4. The Summit's concern with strengthening the capacity of, and cooperation among, existing international environmental organizations dates back to 1987, when the leaders directed United Nations Development Programme (UNEP), the International Standards Organization (ISO) and the International Council of Scientific Unions (ICSU) to create an information exchange and consultation forum.
5. The particular problems of the poorest of the poor countries and Africa as a region have long been a major area of G7 attention and achievement, through such initiatives as the "Toronto Terms" on debt relief. The 1994 Summit's recognition of the stagnation and continuing poverty in Africa, and the absence of significant private capital flows to the region, pointed to the need for enhanced and coordinated development assistance and debt relief.

Fourth, the Summit's accomplishments in the field of sustainable development are neither routine nor automatic. Indeed, global environmental issues can easily disappear from the leaders' agenda, as they did at the Summits of 1982, 1983 and 1986. Moreover, the great focus of the G7 on sustainable development — from 1988 to 1990 — has largely disappeared in recent years.

Fifth, leadership does make a difference. At the Summit, Germany, Canada, and to a lesser extent Italy, have been the sustainable development pioneers. It is at the Summits they have hosted, in particular, that the major advances have come.

While France and Britain have joined Canada in a continuing concern for development issues, they have not displayed a regular interest in a broad range of global environmental concerns. In general, the United States and Japan have been the least forthcoming. The Halifax Summit thus offers an important opportunity to put critical sustainable development issues back on the G7 agenda. Moreover, as France and the United States will be hosting the two Summits following Halifax, it is important to consider how progress initiated at Halifax can be sustained in subsequent years. Here the possibilities include having the Halifax heads define their sustainable development agenda for their 1996 Summit, requesting reports on priority items in future years, building ancillary bodies to reinforce the work of the leaders, or focussing on issues of growing preoccupation for publics in France and continental Europe.

Sixth, sustainable development is an important area not only of Canadian leadership, but also of Canadian success. As Prime Minister Campbell demonstrated at Tokyo, even prime ministers very new to the G7 can raise important environmental issues at the Summit and in the surrounding bilaterals, and secure agreement for forward movement from the most ecologically powerful institutionalized group of countries in the world. Moreover, Canadian prime ministers receive substantial attention and acclaim from the Canadian media for their sustainable development efforts at the Summit.¹

Finally, there is strong support among publics and experts in Canada and the other G7 countries for the Summit to focus on sustainable development, and for Canada to play a leading part in this process. The global environment is the issue Canadians as a whole most want the G7 Summit to address. Moreover, environmental experts in other

¹ For examples among the print media, see the reports on the Tokyo Summit from Jill Vardy of the *Financial Post* and Rosemary Spiers of the *Toronto Star*.

G7 countries recognize Canada as a credible leader in this field.

Taken together, this legacy of G7 and Canadian achievement on sustainable development issues at the G7 Summit, and the depth and durability of domestic and international public and expert support for this focus suggest that sustainable development should be a substantial emphasis for Canada, both at the G7 environment ministers meeting scheduled for April 29–May 1 in Hamilton and the G7 Summit itself on June 15–17 in Halifax.

What follows is a more detailed review of G7 agreements and Canadian action on development and environmental issues at past Summits, at the most recent meetings at Munich in 1992, Tokyo in 1973, and Naples in 1994, in the G7 environment ministers forum that has emerged since 1992, and in the current attitudes of the public and experts in Canada and abroad.

The Development Achievements and Canada

Since its inception at Rambouillet in 1975, the G7 Summit has dealt with development as a constant component of its agenda. Indeed, international development, and closely related subjects such as North-South relations, aid and debt, have stood alongside macroeconomic policy and trade as the subjects that every single Summit has addressed.²

Some of the Summits' most notable achievements over the past two decades have dealt with international development.³ For example, the 1979 Tokyo Summit agreed on expanded cooperation with developing countries in energy, capital flows, food, human resources and technical cooperation. The 1981 Ottawa Summit signalled the willingness

of the G7 to engage in a North-South dialogue at the Summit level. In 1983, the G7 agreed to participate in UNCTAD 6 (the United Nations Conference on Trade and Development). In 1985, the Summit offered increased assistance to Africa, and in 1986, it endorsed a strengthened debt strategy and the eighth increase in capital for the International Development Association (IDA).

The Summit's concern with North-South relations has also been reflected in the Summit process. Over the years, Summit members and the chair have consulted with developing countries in advance of the annual event, and briefed them subsequently on Summit results. This effort acquired a new dimension in 1989 when, just before the Paris Summit opened, French President François Mitterrand met with several major developing country leaders and hosted a dinner for them and the arriving G7 heads. More recently, in 1993, Japanese Prime Minister Miyazawa invited President Suharto of Indonesia to Tokyo to hold a bilateral meeting with him and one with US President Bill Clinton on the Summit's eve. The head of the International Monetary Fund (IMF) has also attended the Summit in recent years.

Together with Britain and France, Canada has been the G7 member most insistent on using the Summit to further development and North-South issues. Indeed, Canada's invitation to join the G7, at Puerto Rico in 1976, was due in part to Prime Minister Pierre Trudeau's strong emphasis on the problems of developing and resource dependent countries, and Canada's special sensitivity, given its Commonwealth and Francophonie affiliations and non-imperial past, to developing country concerns. It is thus hardly surprising that when the leaders' personal representatives or Summit "sherpas" in consequential G7 member countries

² John Kirton, "Contemporary Concert Diplomacy: The Seven Power Summit and the Management of International Order", paper prepared for the International Studies Association Annual Conference, March 29–April 1, 1989, London, England.

³ For an overview see Peter Hajnal, (ed.) *The Seven Power Summit: Documents from the Summits of Industrialized Countries, 1975-1989*, (Millwood, NY: Kraus International, 1989), p. 52.

reflect on Canada's distinctive contribution to the G7, they recall its emphasis on the priorities of the developing world.

Canada's sympathy for, and success in, forwarding development issues at the G7 is evident in the two Summits Canada has hosted. At Ottawa in 1981, Pierre Trudeau, supported by France and the European Community, made North-South relations the centrepiece. He further succeeded in having a new and sceptical President Reagan agree to modify his position on aid and on a World Bank energy affiliate, and to attend the forthcoming North-South summit on global negotiations at Cancun. The central accomplishment of the 1988 Toronto Summit was an agreement among the G7 countries to reduce the debt of the poorest countries by one third, through the "Toronto Terms" of a partial write-down of principal, lower interest rates, or full repayment at commercial rates, but over a longer term.

Environmental Achievements and Canada

Since its 1975 start, the Summit has dealt with important environmental issues through its recurrent attention to international energy and raw materials issues in the wake of the 1973 oil shock. The Summit's initial concern was with promoting energy conservation, alternatives to oil imports and use, and long-term consumer-producer cooperation. In 1978, it added a commitment to energy efficiency, research and development, and greater use of renewable energy. It further

recognized that "in energy development, the environment and human safety of the population must be safeguarded with greatest care."⁴ This phase culminated in 1979 when the Tokyo Summit adopted a far reaching and highly successful program to reduce oil consumption within the seven major industrialized countries. This program endorsed full cost pricing for oil, disciplines on energy subsidies, a recognition of the environmental damage caused by the use of coal, and an acknowledgement of how alternative sources of energy could "prevent further pollution, particularly increases of carbon dioxide and sulphur oxides in the atmosphere."⁵

The 1980 Venice Summit added a concern for population, approved "the introduction of increasingly fuel efficient vehicles," and endorsed accelerated progress by "arrangements or standards for improved automobile fuel efficiency, by gasoline pricing and taxation decisions, by research and development, and by making public transport more attractive."⁶ The leaders further promised: "We will do everything in our power to ensure that increased use of fossil fuels, especially coal, does not damage the environment."⁷

The 1981 Ottawa Summit offered a more extensive endorsement of the value of renewable energy sources and the first direct statement of the core principle of sustainable development. It declared: "In shaping our long-term economic policies, care should be taken to preserve the environment and the resource base of our planet."⁸

Versailles in 1982, which began the second seven-year cycle of summitry, saw a diminution in

⁴ "Declaration, July 17, 1978," paragraph 14, as cited in Peter Hajnal, (ed.), *Ibid.*, p.52.

⁵ *Ibid.*, p.67.

⁶ *Ibid.*, p.83.

⁷ *Ibid.*, p.83.

⁸ *Ibid.*, pp.106,110. At the Ottawa Summit, the leaders themselves appeared not to have discussed environmental issues, although the foreign ministers did touch on the United Nations Conference on the Law of the Sea. The energy discussion among the heads was very brief.

energy and a complete disappearance of the environment as subjects of G7 concern. The 1983 Williamsburg Summit did generate an agreement to "strengthen cooperation in protection of the environment, in better use of natural resources, and in health research."⁹ But only in 1984 at British Prime Minister Margaret Thatcher's London Summit did environmental attention return in a substantial way. Here the leaders recognized the international dimension of environmental problems and the role of environmental factors in economic development. They invited their ministers responsible for environmental policies and a Summit working group to identify areas for cooperation, research and industrial projects. Moreover, they welcomed an "invitation from the Government of the Federal Republic of Germany to certain Summit countries to an international conference on the environment in Munich on 24-27 June 1984."¹⁰

Bonn 1985 marked a major breakthrough. It declared the G7's primary responsibility to be "the future of the world economy and the preservation of natural resources." It accepted the basic logic of sustainable development with the words: "Economic progress and the preservation of the natural environment are necessary and mutually supportive goals. Effective environmental protection is a central element in our national and international policies."¹¹ The Bonn Summit produced a communiqué with the first-ever separate section on "Environmental Policies." Here it covered the modern agenda of acid rain, motor vehicle pollution, climate change, the ozone layer, toxic chemicals, hazardous waste, soils, fresh water and seas. It noted the role of the market,

science and technology, improved environmental measurement, the OECD, and cooperation with developing countries to avoid environmental damage and disasters worldwide.

The second Tokyo Summit in 1986 saw another major retreat. Environmental subjects were reduced from a full section to a single paragraph, one which contained no new issues or concepts. However, Venice in 1987 represented a rapid return. The "Environment" was again accorded a separate section. The leaders promised to pass a healthy environment on to future generations. They directed UNEP, the ISO and ICSU to create a forum for information exchange and consultation. They added endangered species, tropical forests, and environmental standards as issues. Moreover, Venice introduced the trade-environment link by calling for the "promotion of international trade in low-pollution products, low-polluting industrial plants and other environmental protection technologies."¹²

It was at the 1988 Toronto Summit, hosted by Prime Minister Brian Mulroney, that environmental issues first made their full-scale, sustained appearance on the G7 agenda.¹³ Led by Canada, Germany and Italy, the G7 endorsed the report of the Brundtland Commission and its concept of sustainable development, and welcomed the Montreal Protocol on ozone protection, the Toronto Conference on the Changing Atmosphere, and measures to combat acid rain. At Toronto, the French declared that environmental issues would provide the overall theme for the Summit they were to host the next year.

⁹ *Ibid.*, p.237.

¹⁰ *Ibid.*, pp.264-5.

¹¹ *Ibid.*, p.287.

¹² *Ibid.*, p.343.

¹³ Germany and Italy both underlined the environment in the Summit's opening priority-setting session, and the leaders had a lengthy discussion of the subject over dinner on June 20.

Their choice allowed Canada to continue its environmental activism at Paris in 1989. Over one-third of the Paris Summit communiqué dealt with environmental issues. Canada, as a recognized Summit leader in this field, was responsible for drafting much of the language. It was Prime Minister Mulroney who, at the Summit itself, proposed and secured agreement to begin and direct the work on environmental indicators at the OECD.

At Houston in 1990, the leaders endorsed and elaborated upon the principle of sustainable development, accepted the precautionary principle, and injected environmental considerations into several of the economic subjects they took up (notably assistance to Central and Eastern Europe development lending, and the Enterprise for the Americas program).¹⁴ Moreover, priority was given to the issues of climate change, ozone depletion, deforestation, marine pollution and loss of biological diversity. The Summit secured agreement from the US to contribute to a Third World CFC substitution fund, and to accept as sound science the report of the International Panel on Climate Change. Canada was particularly successful, securing recognition of its problems with "unregulated fishing practices" and the announcement of a long-awaited bilateral agreement with the US to combat acid rain.

Even though the environment took only about one-fifth of the Houston communiqué, it remained the largest single subject among the Summit's communiqué-encoded results. With the first arrival of Soviet President Mikhail Gorbachev at the 1991 London Summit, however, and the appearance of Russian President Yeltsin at subsequent gatherings, attention was diverted to the problems of post-communist societies. The focus on both environmental and development issues thus declined. London did declare the forthcoming

UNCED conference to be a "landmark event", for which the G7 would "aim to achieve" an effective convention on climate change, a set of forestry principles, and, if possible, a biodiversity convention. Canada obtained recognition, notably from the four European powers and European Community that signed the Declaration, that "overfishing" and other harmful practices "threatened" living marine resources.

Munich 1992 and the Canadian Contribution

At Munich in 1992, the environment disappeared as a Summit priority, although Prime Minister Mulroney, in his opening statement to his colleagues, did call for a credible follow-up to Rio, action to address the ecological disaster caused partly by Europeans and Koreans in Canada's east coast fishery, and a demonstration that the G7 had not forgotten the less developed countries (LDCs). After this opening, however, the leaders did not discuss the environment. They left it to their personal representatives, or "sherpas", at their final meeting to add to the communiqué passages on biodiversity, forestry and satellite sensing, energy, and, as Canada's particular contribution, support for an international conference on straddling and migratory fish stocks.

In the development field, the leaders, drawing on the work of their G7 finance sherpas, agreed on slightly expanded "Trinidad Terms" that added four lower middle income countries (Congo, Cameroon, Côte D'Ivoire, and Nigeria) to those eligible for debt relief, and created a fourth "Toronto Term" option in the form of a USA-preferred 25-year payment with 16 years grace.

¹⁴ For a more detailed account, see John Kirton, "Sustainable Development at the Houston Seven Power Summit", paper prepared for the Foreign Policy Committee of the National Round Table on the Environment and the Economy, September 6, 1990.

Tokyo 1993 and the Canadian Contribution

The 1993 Tokyo Summit saw a further diminution in the attention to environmental and development issues. There was an advance in the integration of economic and environmental considerations and an acceptance of sustainable development as a goal. But the environment was dealt with in only one of the economic declaration's 16 paragraphs, and the developing countries in only three.¹⁵ Moreover, the leaders themselves spent little time discussing environmental issues.

The opening section of the Tokyo Declaration included "reconciling global growth and environmental objectives" as a priority challenge (para. 1). The section on employment and growth noted the contribution which "developing international cooperation on the environment" could make and the "opportunities for job creation offered by environmental policies" (para. 5). Moreover, in the section on nuclear safety in post-communist countries, the leaders, inspired by their Japanese host, noted their "concern" over the ocean dumping of radioactive wastes by Russia" (para. 11). And all three of the paragraphs on developing countries specified the goals of sustainable development or recognized the importance of "taking environmental aspects into account" in the international development process (para. 12-14).

Paragraph 8, on the environment, noted the continuing "high priority" for this subject, and the importance of the new United Nations Commission on Sustainable Development (CSD), ratification of the climate change and biodiversity conventions, and negotiation of a desertification convention. The G7 further promised to "publish national action

plans by the end of this year," to use an improved Global Environmental Facility (GEF) to meet the "incremental costs" of implementing the conventions signed at Rio, and to encourage the multilateral development banks to focus on sustainable development, improve environmental appraisal of projects, and make these appraisals publicly available. Finally, the leaders welcomed work on forestry and on environmental and energy technologies, and looked "forward to a successful outcome of the United Nations conference on straddling and highly migratory fish stocks."

Apart from an introductory promise to support the developing countries, reference to this subject was confined to the three paragraphs dedicated to this topic. Here the heads highlighted the economic and social problems of Africa, and the importance of self-help, good governance, sound and open economic policies, and integration into the world economy. They pledged a comprehensive, differentiated approach, to "make all efforts to enhance development assistance," and to focus on the poorest through an extension or renewal of the Enhanced Structural Adjustment Facility (ESAF) and the Paris Club's review of early reductions in the stock of debt. They further promised to work for the success of the Cairo Conference on Population and Development, and noted the importance of the link between rapid population growth and sustainable development.

Canada's sustainable development interventions at Tokyo concentrated on overfishing on the Atlantic Ocean and a new concern with the effects of driftnet fishing on salmon off British Columbia, within the larger global context of sustainable development.¹⁶ In bilateral meetings with British and French leaders, Prime Minister Kim Campbell

¹⁵ *Tokyo Summit Economic Declaration: A Strengthened Commitment to Jobs and Growth*, July 9, 1993.

¹⁶ For a public account, see in particular Jill Vardy, "Campbell seeks support for fishery," *The Financial Post*, July 9, 1993, p. 5; Jill Vardy, "Prime Minister hails summit a success," *The Financial Post*, July 10, 1993, p. 5; and Jill Vardy, "Campbell earns praise," *The Financial Post*, July 10, 1993, p. 5. Apart from Rosemary Spiers, in "Gentle introduction to a cosy club," *The Toronto Star*, July 10, 1993, A 13, other national journalists and newspapers largely ignored environmental issues. See Kirton Associates, *Canada, the Prime Minister, and the 1993 Tokyo Summit*, Report prepared for the Foreign Policy Communications Division, Department of External Affairs and International Trade, June 28 - July 10, 1993.

pressed countries such as Italy and other European countries to ratify the Canada-European Commission agreement on fisheries conservation. At the Summit table, where these coastal matters are traditionally regarded as parochial issues to be traded off for others' pet national concerns in a "Christmas-tree"-like communiqué, Prime Minister Campbell stressed their importance to the broader process of, and shared interest in, sustainable development. It was she who pressed for, and succeed in, having added after the Thursday plenary session of the Summit, the declaration sentence endorsing the UN conference on migratory fish stocks.

Naples 1994 and the Canadian Contribution

The 1994 Naples Summit saw a continuing lack of priority for sustainable development and its environmental aspects, and a shift toward social dimensions of the subject. Of the 36 paragraphs of the Summit communiqué, only five dealt with the environment and a further three with development. The introduction noted sustainable development as the goal for the global economy of the 21st century, and again identified environmental protection as an opportunity to create jobs. In contrast to Tokyo, which had ignored the trade-environment link, the Naples communiqué welcomed "the work on the relation between trade and environment in the new World Trade Organization (WTO)," called for "intensified efforts to improve our understanding of new issues including employment and labour standards and their implications for trade policies," and pledged to review progress on these issues at the Summit in 1995.

In its environment section, the Naples communiqué again noted that environment was a "top priority" for international cooperation (citing technologies, energy efficiency and pollution clean-up). It again urged multilateral development banks to be more ecologically sensitive, while adding "promoting local participation" and "incorporating environmental considerations into their programs" to the narrower concern the previous year with publicly available project appraisals. It endorsed CSD's work, implementation of the Biodiversity and Climate Change Conventions and the forthcoming conferences on these subjects in Nassau and Berlin. It also welcomed the GEF replenishment and restructuring, the Conference on Desertification, and the Conference on Small Islands. Its most firm and forward-looking commitments were to speed up implementation of G7 national plans for the UN Framework Convention on Climate Change, report on progress at the Halifax Summit, and develop steps for the post-2000 period. Notably absent was any reference to Canada's standard G7 topic — fisheries — largely because the seven members had previously agreed to focus their agenda and eliminate references to issues seen as largely of concern to only one country.¹⁷

In its development section, the Naples communiqué again singled out Africa, called for the success of the Cairo conference, pledged to "continue our efforts to enhance development assistance" (as well as promote trade and investment flows), and welcomed private capital flows. It specifically called upon the World Bank and regional development banks to reinforce private capital flows to the third world "while providing growing resources for health education, family policies and environmental protection." It again approved the work of the Paris Club and the

¹⁷ Several of such "Christmas Tree ornaments" did, however, appear in other sections of the communiqué. During the preparatory process, Canada had suggested that the heads endorse a "cod-free" zone off the nose and tail of the Grand Banks in response to a French proposal, inspired by Danielle Mitterrand, that the heads declare a "whale-free zone" around Antarctica. Neither suggestion was accepted.

renewal of ESAF, while adding IMF measures to support developing countries and ensure that all members take part in the SDR (special drawing right) system. Most specifically, it agreed "to explore ways to mobilize more effectively the existing resources of the international financial institutions to respond to the special needs of countries emerging from economic and political disruption and the poorest most indebted countries."

At Naples, there was almost no discussion of environmental issues among the heads themselves. They merely agreed that they did not have much in their communiqué on this topic and that more was needed. One leader suggested that they examine the post-Rio environmental agenda at Halifax the next year. The leaders' discussion of North-South issues ran along predictable lines, much as the sherpas had arranged it. British Prime Minister John Major asked for a "stock of debt" approach, which Canada accepted, especially as there was a reference to following up on this the next year. Although it provided a problem for France and the US, in the end, President Mitterrand, attending his last Summit, agreed to go along with whatever G7 consensus emerged.

Neither the environment nor development was a priority item for Canada at Naples.¹⁸ In his pre-Summit bilaterals, Prime Minister Chrétien did seek to counter an environmentally cloaked boycott of Canadian forest products in Germany, and discussed population issues and the forthcoming Cairo conference with the Pope in Rome. At the Summit, he joined with President Mitterrand in offering humanitarian assistance to Rwanda. Canada's major thrust came in seeking to have the

new trade issues, including the trade-environment relationship, ripened in the OECD rather than thrust into the negotiating forum of the fledgling WTO. Canada was also active in seeking support to enhance nuclear safety in Ukraine.

The G7 Environment Ministers' Forum

In part, the limited attention to sustainable development issues at Naples reflected a desire to have a communiqué that was shorter and more authentically produced by the leaders themselves. It was also due in part to the emergence since 1992 of a separate G7 forum for environment ministers, paralleling G7 bodies or gatherings of ministers responsible for foreign affairs, finance, trade, employment and, most recently, information technology.

The origins of the G7 environment ministers forum can be traced back to 1984. Then the leaders, at their London 2 Summit, called upon their environment ministers to clarify areas of continuing cooperation, and upon their science and technology task force to report on environmental issues by the end of 1984. In 1989, President Bush brought Environmental Protection Agency (EPA) Administrator Bill Reilly with him to the Summit, and allowed him to brief the attending media. In the spring of 1992, the environment minister of Summit host Germany, Klaus Toefler, invited his colleagues to a meeting in Germany to discuss the forthcoming Rio agenda.¹⁹ G7 environment ministers met again on-site at UNCED, contributing to an active process of coordination through which

¹⁸ See, for example, the absence of attention to these topics in Canada, Foreign Affairs and International Trade Canada, *The Naples Economic Summit*, July 8-10, 1994, Background Information. The major Canadian media, preoccupied with trade, paid virtually no attention to environmental or development issues at the Summit, or Canada's role in them. However, John Bierman, in "Mitterrand's G7 Sermon Will Fall on Deaf Ears," *The Financial Post*, July 8, 1994, did highlight President Mitterrand's call for a consensus on development to match that achieved on the environment at UNCED, and concluded with regret that there would likely be no G7 response.

¹⁹ The environment ministers discussed climate change control strategies, with Canadian environment minister Jean Charest stressing that any Canadian gasoline tax had to take into account US action, given Canadians propensity for cross-border shopping.

the G7 maintained a common position and prevented the isolation or defection of the US. Although no meeting was held in 1993, Italian Environment Minister Spini hosted his colleagues at Florence in the spring of 1994, for what proved to be largely a get-acquainted session.

The Florence meeting was sufficiently successful to inspire the Canadian government to host a subsequent meeting, in Hamilton from April 29 to May 1, 1995. Initial planning for the Hamilton meeting indicated a substantive focus on three major sets of issues: environment-economy integration with a focus on "greening" government; the priority issues of climate change, biodiversity, and toxics management; and institutions, including reform of the international environmental and financial institutions.

Public and Expert Attitudes

Outside of government, in Canada and other G7 countries, there is strong support for a Summit priority on sustainable development issues and for Canadian leadership in this endeavour. Perhaps most importantly, given that the 1995 Summit will be hosted in Canada, there is very broad, deep and durable Canadian mass public support for Summit emphasis on sustainable development. Canadians believe in the overall Summit process. Indeed, as Annex 1 details, pre-Summit polls in both 1993 and 1994 show that three-quarters of Canadians view the Summit as a valuable forum for international action. Moreover, by a substantial and increasing margin, they select global environmental problems as the issue they most want the Summit to address. Canadian concern with the developing

countries, while less pronounced, also remains substantial. In these judgements, Canadians are expressing their deep convictions about the centrality of the environment and development in Canadian foreign policy as a whole.²⁰

Among Canada's G7 partners there is support as well.²¹ Informed experts in G7 countries have come to recognize and applaud Canada for its international environmental activism. A survey conducted between September and December 1994 with 66 sustainable development experts across mainly G7 countries found that Canada was given a "mildly positive assessment" as a leader on sustainable development, with 60% of respondents citing Canada, and twice as many offering positive rather than negative comments. Canada's forestry and energy practices were the subject of the negative comments. These experts saw poor progress to date on sustainable development, expected modest progress in the near future, and felt progress would come primarily from follow-up to the UNCED conventions (as opposed to industry initiatives and environmental non-governmental organization or policy institute activities). The leading international institutions in advancing sustainability were felt to be the World Bank and the European Union, with the OECD coming last of the seven listed.

Pierre Marc Johnson practises law in Montreal and serves as Vice-Chair of the NRTEE and Chair of its Task Force on Foreign Policy and Sustainability.

John Kirton is an associate professor of political science at the University of Toronto and a member of the NRTEE Task Force on Foreign Policy and Sustainability.

²⁰ John Kirton, "Sustainable Development as a Focus For Canadian Foreign Policy," *Working Paper 25* (Ottawa: National Round Table on the Environment and the Economy, September 1994).

²¹ Summary of Findings, 1994-1 *GlobeScan Survey*, Synergistics, December, 1994.

Annex

Canadian Public Opinion on the G7 Institution and Issues, 1993-4

Importance of the G7 Summit

1993-1994

Meetings are Important (1993)	71%
Good for Canada (1994)	72%
Waste of Time and Money (1993)	28%
Waste of Time and Money (1994)	25%
No Opinion (1993)	1%
No Opinion (1994)	3%

Summit support is most widespread in Atlantic Canada and least pronounced in Quebec. Summit sceptics were disproportionately senior citizens, the less well educated, and poorer Canadians.

Questions: 1993 and 1994

1993: "Some people say that these meetings are a waste of time and money because nothing substantial is ever really accomplished at them. Other people say that because the economies of all these countries are so closely linked, these meetings are important and give the leaders an opportunity to discuss problems and share ideas on how to solve them. Thinking of these two points of view, which one best reflects your own?"

1994: "Some people say that Canada's participation in the G7 Summit is a waste of time and money for Canada because nothing is ever really accomplished at them. Other people say that participating in the Summit gives Canada an opportunity to influence events in ways that are good for this country. Which one of these two points of view is closest to your own?"

Issues for the G7 Summit

1993 Tokyo G7 Summit

Most Important Economic Issue and Most Important Other Issues (Integrated)

The Environment	37%
Unemployment	30%
Government Debt	25%
Stop Nuclear Weapons Spread	25%
World Trade	17%
Developing Nations Economies	13%
Aid to Poorer Countries	11%
Inflation	10%
Social/Political Reform USSR	8%
Fighting in Former Yugoslavia	7%
Former USSR Economy	4%

1994 Naples G7 Summit

Most Important Economic Issue and Most Important Other Issue (Integrated)

The Environment	44%
Unemployment	39%
Government Debt	37%
Nuclear Weapons Spread	17%
Bosnian Fighting	13%
Poorer Country Aid	12%
World Trade	11%
Middle East Peace	11%
Developing Nations' Economies	10%
Russia's Reform	1%

(Sources: Decima Quarterly Report, Summer 1993; Harris Canada Poll, Taken May 1994)



Setting the Stage: Canadian Government Perspectives



3 Canada and the Halifax Summit

Gordon Smith

The Canadian government is now deep in the process of preparing for the G7 Summit in Halifax, and is trying to reach out to groups, particularly well-informed ones, in order to bring forward as many ideas as possible.

The first point may seem obvious; but it is worth stressing. That is, to what extent is the Halifax Summit, as an event, an opportunity for Canada to influence the course of international events and to voice Canadian concerns on the world stage? Sustainable development and protecting the environment have already been identified as issues for the Summit. So the issue becomes, what role will the environment and sustainable development play, and what specific ideas or initiatives should be advanced under their general rubric?

Canada is chairing the Summit this year, as it does once every seven years, and this presents several opportunities for influence in the process. Certainly it is important for Canada to underscore the value of its membership in the G7 itself. Although Canada was not at the first G7 meeting in 1975, it has been at every one from 1976 on. At present, the G7 as an institution is under scrutiny, both from within and from outsiders, and it is important to take the opportunity at Halifax to put forward Canadian initiatives to build up the role that Canada plays in the G7. Canada is one of the smaller countries in the G7 and, therefore, it is particularly important for Canada to put forward ideas which underscore the value of Canadian participation to the other six members.

Second, as chair this year, Canada has an unparalleled opportunity to influence the substantive discussions at Halifax.

Third, as other countries seek consultations, Canada has the opportunity to strengthen its profile with non-G7 countries on issues such as trade and investment. Both the ASEAN foreign ministers and the Mexican government have recently asked for formal meetings. So, the next few months provide a period where Canada has a considerable international profile, which translates into international opportunity.

The preparatory process for the Summit is now well in hand. A lot goes on behind the scenes, particularly during the meetings of the "sherpas", the prime ministers' and presidents' personal representatives who meet three to four times before the Summit. The idea behind sherpas' meetings is not to prepare in detail the substance of the work at Halifax. It has been stressed by Prime Minister Chrétien and others that the leaders want to have the maximum opportunity for free and open discussion at Halifax, and do not want their conclusions to be pre-cast by officials meeting months in advance. The sherpas will endeavour to create an environment conducive to such free and open discussion.

However, there are some countries that like to have the details of summits and communiqués arranged well in advance. One is constantly striking a balance. The Canadian objective is to ensure that the process is in place and that the framework for the meeting is right, and then to give the leaders the maximum opportunity to discuss what is on their minds.

The sherpas are an interesting group. They do not come from designated positions in the government hierarchies of various countries; rather they are

named by the government leaders to reflect the prime ministers' or presidents' or chancellors' confidence in the individual. The result of this is interesting because it means that the sherpas are a mix of people who work either directly for the leaders, such as the president of France, or who come from finance ministries or foreign ministries; thus, some are political, and others are public servants. But that helps to enrich the process. There is also a whole structure of sub-sherpas from foreign and finance ministries, and political directors who will also be meeting prior to the Summit.

Russian involvement in summits has increased over the past few years. In 1994 in Naples, a formula for Russian involvement was set that will be repeated in Halifax: the Russians will be at the table for the second half of the Summit. Despite the fact that the Russians have told the media that they would like to participate in more than the second day of the Summit, the general view of the G7 is that such should not be the case. The Russians have also indicated that they would like to participate in more than a discussion of political subjects. Although this request depends on how "political" is defined, President Yeltsin has indicated that he wishes to participate in discussions of what he has termed global economic issues. However, the members of the G7 believe that the traditional economic focus of the meeting should not be opened up to Russian participation.

From a Canadian perspective, the 1994 Naples Summit was a success. There was endorsement in the communiqué of language that Canada proposed on trade, which helped to bring about a conclusion of the Uruguay Round. Canada also proposed, and offered to host, a conference on partnerships for the economic transformation of the Ukraine. That conference was held in Winnipeg in late October 1994, and is generally regarded to have been a success. In Naples, Canada also

focussed on a variety of other issues, among them jobs and growth, and nuclear safety.

In preparing the Halifax Summit, Canada must provide hooks on which the G7 can build. The principal subject for discussion by the leaders at Halifax will be the review of the Bretton Woods Institutions. When President Bill Clinton visited Ottawa in the middle of February 1995, he and Prime Minister Chrétien discussed at some length the functioning of the international monetary system. Their concern has been the capacity of the system to deal with shocks, a general issue that was brought into sharp relief by the Mexican peso crisis. Perhaps the more recent failure of the Barings Bank in the UK will also raise questions about the way in which the international monetary system is or is not working. But from the perspective of the Canadian Prime Minister, there is a particular focus on the International Monetary Fund (IMF) within the context of the Bretton Woods Institutions.

There will also be an examination of the World Bank and where the World Bank is after 50 years. There are any number of reviews that have been conducted on the IMF and on the World Bank, examining whether the relationship between them is as it should be, and whether the institutions should be modified to accommodate the enormous changes in the world over the last 50 years. The G7 also proposes to look at how the World Bank relates to UN institutions such as the United Nations Development Programme and, under the same institutional heading, to look at the organizations that exist internationally for the environment, to see whether there should be any change in the structure of those organizations, or changes in the relationships between them.

All of these issues have an institutional dimension. As well, feeding into the Halifax Summit is the desire to look at a number of issues, including the environmental agenda, in a substantive way. This

means revisiting biodiversity and, above all, climate change and nuclear safety, where it will be necessary to review the situation with respect to Chernobyl and other reactors of that nature which are particularly dangerous.

These are some of the references in the Naples communiqué that are affecting Canadian preparations at this point. There has already been a meeting of the seven sherpas to go through all this, and there will be another in March, by which time there will have been prepared a variety of papers to help define more clearly what issues the leaders will discuss.

In a broader context, based on the sherpa meeting in February, in Ottawa, the overall question is: does the international system have the capacity to meet the challenges ahead? In other words, rather than getting the leaders to look at reform institution by institution — IMF, World Bank, WTO — would it be more effective to set out issues or challenges and ask whether the institutions are equipped to respond to those challenges? These challenges are now being defined.

One of the major challenges is to promote economic growth. A second challenge is poverty, debt and related problems, all of which are tied explicitly to the question of sustainable development. Migration is an issue of increasing importance and can be linked back, through its root causes, to sustainable development. Yet another challenge will be to further international trade liberalization, examining the agenda flowing out of compromises reached during the Uruguay Round, and defining issues of trade and environment.

Political directors will be focusing on managing international conflicts and tensions, particularly in systemic terms. They too, will have a special reference to migration. There will also be discussions of the capacity of the international system to manage a range of issues in the area of

international crime, from money laundering to drug trafficking.

So, at present, the governments and the sherpas are trying to define what the issues will be, and to develop sensible initiatives.

One point which is critical is that the leaders of the G7, or in this case the sherpas, do not pretend to speak for everybody in the world on the issues they identify. The sherpas speak for the seven countries, and in doing so set out certain ideas to generate and push debate in the international community. It is very important that nobody thinks that these seven individuals or countries believe that they, alone, have the right to deal with issues, such as the reform of the IMF and the World Bank, which concern a broad number of countries which, as members of those institutions, have their own concerns.

Sustainable development is certainly among the subjects that will be put forward for debate in the preparatory process. For Canada, sustainable development is a very important issue. However, it is unclear where it is on the agendas of other countries. It is not apparent at the moment that sustainable development is being pushed particularly hard in the other G7 countries, and, while it is still early at this point, Canada has mentioned sustainable development more than the other six countries combined.

There are a variety of other areas that require more attention. National environmental plans on climate change and biodiversity need to be reviewed further to the commitments that were made at UNCED. The issue of nuclear safety may be outside the ambit of the NRTEE; however, the closer to Chernobyl one is, the bigger an issue it is. And the Europeans in particular, but not only the Europeans (the issue was discussed at the February meeting between President Clinton and Prime Minister Chrétien), want action, and want it quickly. However, there is a price tag attached, and

it is related to sustainable development. Nuclear safety does not mean simply shutting down Chernobyl (from the Ukrainians' point of view) and other dangerous reactors. The shutting down of these reactors must be done in such a way as to provide assurance that future energy needs will be met. This carries a large price tag.

There are a few other areas which have a particularly Canadian dimension, and which might be worth pursuing in the lead-up to Halifax. One is fisheries. Canada is on the brink of a serious confrontation with the Europeans with respect to halibut and turbot stocks off the Grand Banks, which are regulated by the North Atlantic Fisheries Organization (NAFO). The issue of how one manages fishing in order to ensure conservation and appropriate economic use of the resource is extremely important to Canada, and the present international regime is not satisfactory for dealing with some of the difficult issues that arise.

The second issue worth mentioning is forests, and the question of sustainable forestry practices. Until adequate codes can be agreed upon, countries, including Canada, are liable to face trade barriers against exports which are grounded upon non-environmental concerns, although such concerns are often represented as being environmentally motivated.

There has been a recent development in Ottawa which is interesting in this context. Flowing from the government's foreign policy review, there has been a small reorganization within the Department of Foreign Affairs and International Trade to create a Global Issues Bureau. This change is based on the following line of thinking: international relations used to be fundamentally about political and security issues. Most foreign ministries now spend more time on economic and trade issues than on the classical political and security issues. Certainly that would be the case in terms of the resources of the department in Ottawa. But now there is a third

wave of issues being introduced with which many foreign ministries are not equipped to deal. These issues include population, migration, the environment (e.g., climate change), cooperation on international crime issues, and cooperation on international health issues, essentially all issues of the global commons. The system must develop the capacity to respond to these global challenges.

A number of groups are responding. Recently, a major study was released by the Commission on Global Governance, headed by Prime Minister Ingvar Carlsson of Sweden and Sir Shridath Ramphal, the former Head of the Commonwealth. Another major study is being prepared for the UN Secretary-General, Boutros Boutros-Ghali. So there are a lot of materials, not only concerning the 50th anniversary of the Bretton Woods Institutions, but concerning the entire UN structure, which evaluate the capacity of the international system. At the domestic level, the Canadian government is making a contribution through the Global Issues Bureau, which will provide a focal point for these issues within the Department of Foreign Affairs and International Trade.

There are a number of G7-related activities occurring in preparation for the Summit. There will be a G7 environment ministers meeting in late April or early May; there was a meeting in February in Brussels on the information super-highway; and there is an OECD ministerial and a meeting of the Quad Trade Ministers (Japan, US, Canada and the European Commission) coming up in the next few months. All of these meetings will be focussing on elements of the substantive agenda for Halifax.

These are the preparations as they are now in place, and they are on track. Nevertheless, there are two items that could potentially derail the preparations. What is notable about Summits is how many of them get thrown off track by some event that occurs which then preoccupies the leaders at the time of the Summit. There are at

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least two possibilities for such events to occur prior to Halifax. The first possibility concerns Russia. What is going to happen in Russia? Will the Russians get Chechnya behind them? If they do not, to what extent will that be a problem in terms of the participation that is envisaged for them? If they do, can one then envisage a generally and continuously expanded Russian participation (something which that country still wants)? The general view of many is that President Yeltsin has been weakened by the conflict in Chechnya. So there is a question mark about Russia at this point.

The second issue that might deflect attention away from the Halifax agenda, one which may seem remote, is an outbreak of war in the former

Yugoslavia. There is a high probability that the UN Forces will be removed from Croatia. If they are, serious fighting could break out, and this raises a question which the Secretary-General of the UN himself has raised, as to whether it would be possible for the UN Forces to stay on in Bosnia. Nobody knows where this is going to come out. Consequently, a weather eye must be kept out for both of these issues in the lead-up to Halifax.

Gordon Smith is Deputy Minister of the Department of Foreign Affairs and International Trade, and the Prime Minister of Canada's personal representative for the Halifax Summit.

4 From Hamilton to Halifax

Mel Cappe

There are a series of questions which can be posed in order to challenge the NRTEE as it undertakes its work on sustainable development and the 1995 G7 Summit, and to stimulate discussion on possible agenda items for the Summit regarding the role of the environment.

The first question is: should sustainable development be integrated into the agenda of the G7, or should it be a separate agenda item? Success in getting sustainable development on the agenda might be indicated if it were not, in fact, a separate agenda item. Indeed, it might be considered ideal if leaders were to deal with the agenda items through an integrated approach that inherently reflects the values of sustainable development. The issue of whether or not sustainable development should be integrated into the agendas of leaders or ministers is intriguing, and there is not necessarily one right course of action in this regard. Sustainable development is still treated as a separate item on the agenda and this would seem to imply that the broad understanding of the nature of these issues has not advanced as far as it needs to. However, it is probably true that leaders and others have not yet arrived at the stage where the environment and sustainable development need no longer appear as separate agenda items. The challenge for the NRTEE is to find a way to proselytize and to sensitize that is non-threatening.

The NRTEE must consider who the audience is. The public and the Prime Minister of Canada are two different audiences. In the latter case, in order to be effective, the NRTEE's contribution must be focussed on practical initiatives for the Prime Minister, and positions framed by "doctrine" should

be tempered by an air of reality. For example, what are the objectives of the G7 as an institution? How does one know if the G7 is successful in its efforts?

It is difficult to measure success from a mechanism such as the G7; however, in order to frame advice to the Prime Minister, the NRTEE should focus on three categories of output. The first kind of output is a set of concrete actions. Will something explicit and specific come out of the G7 meeting that can be actively put into play? The second category is process. If leaders commence a process which may not lead to immediate results, but which starts moving toward results in the coming years, that in itself would be very valuable. The third category of output is a statement of principle. Statements of principle and direction can be very helpful to bureaucrats and politicians alike. Therefore, the G7 communiqué should articulate some principles to guide future work.

In terms of sustainable development, the Canadian government is trying to cast this problem differently and to change its thinking about the nature of the sustainable development challenges. Among these challenges is the issue of whether to parcel out the elements and the issues, or to try to keep sustainable development an integrated whole. Part of the lack of focus in the way governments tend to treat sustainable development comes from the fact that there has been an attempt to achieve too great a degree of integration too quickly. Governments have also tended to make too much of an effort to parcel sustainable development into its component elements, such as global security elements, environmental elements, economic elements, and trade elements. In parcelling out the elements of

sustainable development, the capacity to deal with it in an integrated fashion is lost.

So, neither polar alternative is effective. Clearly the answer must lie somewhere in between. It seems that as the geopolitical landscape changes, as it has changed in the last five years, the challenge is to find a way of dealing with a monopole. As the bipolar power struggle is lost, sustainable development must now be dealt with on a different conceptual basis. And if the balance of power has changed, then maybe sustainable development should be framed in terms of global security. Indeed, one way to capture the attention of the public and of leaders might be to deal with sustainable development and environmental degradation as issues which will pose challenges in a global security context.

There is a lot made of the Canadian public's view of the environment and whether the public cares any longer. In 1988, the public viewed the environment as a top of mind issue. When asked in 1988 what the most important issue was to them, 13-17% of people responded the environment. Now, only 1-3% of the Canadian public offers the same response to that question. Is that a measure of success or a measure of failure? Many people are waiting for the next Exxon Valdez, because such a disaster would re-establish the environment as a primary concern in the public consciousness. Surely that is not a measure of success.

There are a number of different ways to sensitize the public to environmental issues. One way is to change the thinking about how to mobilize public action and to challenge the public to think about these issues on a regular basis, and not simply to respond to disasters. The world is changing, and "that change ain't what it used to be." The nature of the public's perception of the way the world is changing is also different than it used to be. The public knows that the world is changing dramatically, but may not understand how it is

changing. And governments have not necessarily figured that out yet either.

In terms of measuring success, we have to do what can be done. My objective, based on observing my predecessor, is to green the budget. How can this be done? The process must begin not by immediately attempting to green the budget, but by proselytizing without threat. Step by step, one can start to green government operations.

One thing that is definitely within the control of every government and not under the purview of multiple constituencies is their own activities. The greening of government operations has to contribute to the first step of greening government policy. One thing that the ministers will be looking at very seriously in the lead-up to the Hamilton environment ministers' meeting is the greening of government. The greening of government in its operations, as a precursor to the policy issues, is something that should not be threatening and something that can be done; action can be shown, and results can be measured.

The issue of integration versus separation appears as well with regard to broader questions of institutional reform. For example, is it advantageous to have the ministers of environment meet separately, or does that unburden the leaders from having to take sustainable development into account in their deliberations? There must be a way to ensure that there is an appropriate linkage between respective institutionalized ministerial meetings and the leaders' meeting. An appropriate linkage does not mean that the G7 environment ministers, for example, feed in directly to the G7 leaders meeting, but it does mean that it "informs" the G7 leaders meeting. Careful thought must go into the relationship between meetings of G7 environment ministers and the G7 leaders' summits, and we should be cautious about simply institutionalizing ministerial meetings with no clear link to leaders. Otherwise, it is possible that there

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would be a tendency for "environment" issues to be automatically referred to an "environment" forum, rather than to leaders.

On the issue of a possible global environmental organization, the challenge of separation versus integration arises again. At present, when an environmental issue is raised, it is taken to the United Nations Environment Programme (UNEP), not to the UN General Assembly. Similarly, development issues are looked at by the United Nations Development Programme (UNDP). Clearly, there must be ways of integrating these themes and the way that UNEP and UNDP deal with them. If an environmental organization with a global mandate could integrate those issues, only then would it be successful. Any institutions that might be created should encourage action.

Turning around the maxim of "think globally and act locally," what about thinking locally and acting globally? In order to satisfy local objectives, institutions should have the ability to facilitate global action, and this has not been done well enough to date. Effective institutions do exist but they have not yet been able to meet this challenge.

The G7 may be an anachronistic organization, but it is still an international institution which includes the largest powers in the world at the moment, indeed, the only large power, and it can be very effective. It could be made more effective by building a consensus among the industrialized countries and the G7 countries to look at the international institutional framework. The future of the G7 and the OECD should be considered, because they are not going to represent the industrialized world of the year 2050. Therefore, a consensus must be built on the kinds of institutions that will be needed for the next century that involves the rest of the world to deal with sustainable development.

Again, under the theme of separation versus integration, the idea of setting up a trusteeship, as

referred to by the Commission on Global Governance, where governments cede responsibility and obligation to a third party, and give that body the job of overseeing the management of the global commons, as opposed to finding a forum in which there can be joint action, is not desirable. And there is a tension between a global institution that can act, and a convocation of leaders that can collectively take action. That distinction should be kept in mind.

There are two objectives for the Hamilton meeting of G7 environment ministers. The first is to take action on common priorities. This includes on the agenda the integration of economic and environmental issues. Within that context, progress is hoped for on the greening of government operations, and eventually on government policy. First, our own house must be put in order. Another category of issues relate to institutional responsiveness. The environment ministers will be encouraged to reach a consensus on how existing institutions can be used more effectively to deal with sustainable development, as well as to identify the gaps in the institutional architecture that have to be filled. Then, there will be discussion of key environmental issues: follow-up to the climate change meeting in Berlin, biodiversity, and one of particular importance to Canada, toxics. Persistent organic pollutants are being dealt with in a number of different forums in which Canada participates, including UNEP and the United Nations Commission for Sustainable Development (CSD). The G7 environment ministers should be thinking about this issue as well.

The second objective of the Hamilton ministerial meeting is to prepare a Chairman's Summary which would inform the leaders' meeting in Halifax, through the Canadian sherpa.

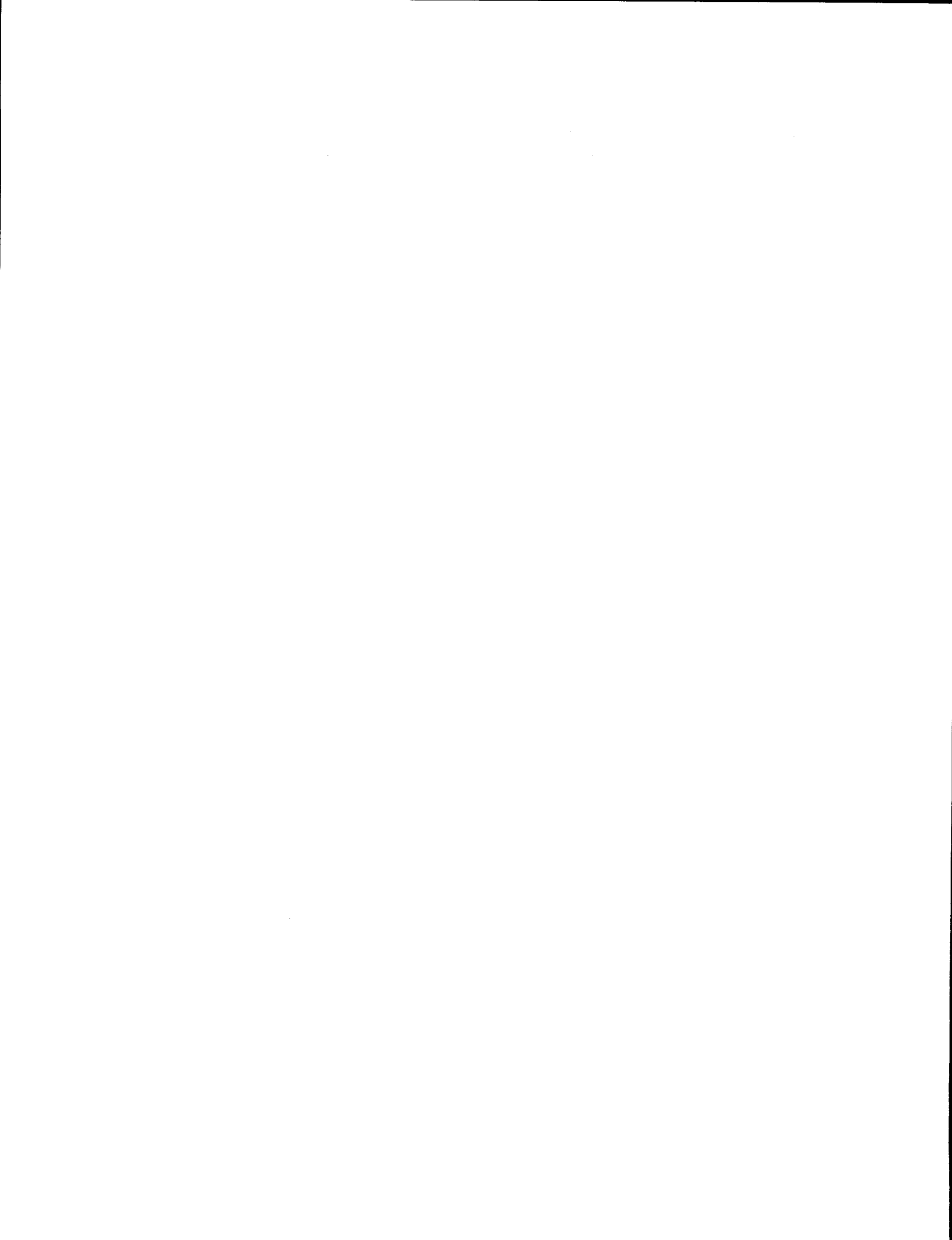
In summary, the following questions must all be considered by the NRTEE. Who is the audience? How should one measure success? Does success

From Hamilton to Halifax

only come with real action on the 18th of June? Is sustainable development best served by separation or integration? Separation of institutions? Separation of issues? How can flexibility be built into the institutions to deal with sustainable development? Should there be a focus on trusteeship or joint action? How can the G7 be used effectively by Canada in the next 20 years, as

an institution with, perhaps, a changing role and status? And finally, the three measures of good advice are action, further work, and a commitment to principles.

Mel Cappe is Canada's Deputy Minister of the Environment.



The International Financial Institutions



5 The International Monetary Fund¹

Ved Gandhi

The overriding purposes of the International Monetary Fund (IMF) are to promote international monetary cooperation and to help member countries achieve a sustainable balance of payments and exchange rate stability (see Annex 1). While these are the main purposes of the Fund, the managing director has directed the staff to assist member countries with the steady pursuit of policies oriented towards what has been called "high quality growth." This term has been defined to cover "...growth that is sustainable, growth that reduces poverty and distribution of inequalities, that respects human freedom and national cultures, and protects the environment."² Therefore, the protection of the environment has increasingly become an important subject and an important consideration, especially since early 1991, when the IMF started thinking about the interrelationships between macroeconomic policies and the environment.

The IMF and the Environment

The IMF has the responsibility for international monetary stability, and it helps member countries attain orderly exchange relations through the adoption of sound macroeconomic policies. Domestic macroeconomic stability is good for the protection of the environment in every country. However, macroeconomic stability alone is not enough for environmental protection, and other complementary policies are also needed. Recent country studies conclude that the macroeconomic

stability in a country is a necessary, but not a sufficient, condition for the protection of the environment.

In addition to sound macroeconomic policies, countries need to adopt appropriate environmental policies if they wish to protect their environments. Among other things, these policies must include (a) taxation of consumption and production of goods and services causing negative externalities; (b) subsidies for consumption and production of goods and services with positive externalities; (c) the imposition of appropriate user charges and fees for natural resources and other environmental assets; (d) definition and assignment of land property rights; and (e) the imposition and monitoring of pollution standards and the implementation of other relevant command and control mechanisms.

The IMF as a part of its consultation and advice attempts to cover some of the foregoing environmental measures that also relate to the Fund's general tasks. For example, typically the IMF recommends, in most countries, the removal of implicit and explicit consumer subsidies to energy and water, producer subsidies to fertilizers, insecticides, pesticides and other harmful chemicals, and, in the case of labour-abundant developing countries, the elimination of budgetary and non-budgetary subsidies to capital and machinery. The IMF does not normally review or comment on environmental policies systematically or comprehensively.

¹ The views expressed here are those of the author and should in no way be attributed to the International Monetary Fund.

² Address by Michel Camdessus to the Board of Governors of the Fund, Madrid, October 4, 1994 (94/17).

There are some fundamental reasons for this. The primary reason is that the Fund's concern is mainly with those aspects of the environment that have a bearing on macroeconomic developments. There are three additional reasons. First, many Fund member countries do not want the IMF staff to be reviewing and suggesting changes in their environmental strategies and objectives, for fear that it may lead to environmental conditionality. Second, given the complexity and multidisciplinary character of environment, and the lack of expertise of Fund economists to deal with environmental objectives, the IMF staff feels somewhat inadequate for the immensity of environmental tasks at hand. Third, given the competence of the World Bank and other specialized agencies dealing with the environment, the Executive Board of the IMF has felt that its active pursuit of environmental objectives would be overlapping, and may even dilute its efforts in the area of its primary mandate (i.e., monetary and exchange stability).

Hence, the decision of the IMF Executive Board with regard to its mandate in the area of environment has been for the staff to (a) get a better understanding of the interrelations, if any, between macroeconomic policies and the environment; (b) become aware of major environmental problems of member countries, as well as of environmental consequences of other policy advice, and bring that knowledge to bear wherever relevant in our policy discussions; and (c) assist countries in analyzing and dealing with macroeconomic implications of the environmental plans and strategies as and when requested by the authorities.

The IMF staff's work on the environment, since 1991, has essentially been guided by this mandate. Annex 2 describes some of the past and ongoing work that the IMF has been doing in the area of the environment.

What is missing from this work at this stage is serious involvement in the environment area at the individual country level. The main reason for this is that not many member countries have asked the Fund staff to examine the macroeconomic implications of their environmental policies.

In light of the primary purposes of the IMF, the Executive Board's mandate to the staff on the environment, and the staff work program in this area, Annex 3 revises somewhat the draft NRTEE proposals concerning the IMF. In the first paragraph the word "continue", has been added because the IMF is already concerned about macroeconomic stability and its positive impact on the environment

In the second paragraph, "ecological fundamentals" should be replaced with "maintaining ecological balance" with the help of the World Bank and the concurrence of the country authorities. This is because the IMF is a monetary institution and not an environmental and ecological organization. It can work in the environment area only with the help of the World Bank staff and other specialized institutions. Moreover, the agreement of the country authorities is an essential prerequisite for the Fund staff even to consider the subject of the environment.

In the third paragraph, "ensure" should be replaced with "encourage" because the member countries are sovereign and the IMF cannot compel them to do anything they do not wish to do. In fact, with macroeconomic stability, debt relief, and additional foreign capital flows, the IMF considers that countries will not need to over-export their natural resources.

In the fourth and final paragraph, the revision reflects the fact that the IMF-supported adjustment efforts consist of much more than simply subsidies and apprising policies. The IMF always attempts to minimize the effects on the environment and the

The International Monetary Fund

social well-being of countries of all of its economic reform policies.

Finally, the IMF is not an environmental organization, and it has no intention of doing what the World Bank and other multilateral development banks are charged to do on the environment through their programs and project lending. Therefore, the creation in the IMF of an environmental auditor-general or a commissioner for sustainable development makes little sense (see Annex 4).

The role of the IMF within an effective network of international organizations is, and should continue to be, to help countries achieve macroeconomic stability, which is one of the most crucial ingredients of sustainable development.

Ved Gandhi is the Assistant Director of the Fiscal Affairs Department of the International Monetary Fund in Washington, DC.

Annex 1

Purposes of the Fund

- (i) To *promote international monetary cooperation* through a permanent institution which provides machinery for consultation and collaboration on international monetary problems.
- (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the production resources of all members as primary objectives of economic policy.
- (iii) To *promote exchange stability*, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper growth of world trade.
- (v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to *correct maladjustments in their balance of payments* without resorting to measures destructive of national or international prosperity.
- (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

(Article I of the Fund's Articles of Agreement, all emphasis is added.)

The International Monetary Fund and the World Bank at a Glance

International Monetary Fund

- oversees the international monetary system
- promotes exchange stability and orderly exchange relations among its member countries
- assists all members — both industrial and developing countries — that find themselves in temporary balance of payments difficulties, by providing short- to medium-term credits
- supplements the currency reserves of its members through the allocation of SDRs (special drawing rights)
- draws its financial resources principally from the quota subscriptions of its member countries
- has at its disposal fully paid-in quotas now totalling SDR140 billion (more than \$200 billion)

World Bank seeks to promote the economic development of the world's poorer countries

- assists developing countries through long-term financing of development projects and programs
- provides to the poorest developing countries whose per capita GNP is less than \$1,305 a year special financial assistance through the International Development Association (IDA)
- encourages private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC)
- acquires most of its financial resources by borrowing on the international bond market
- has an authorized capital of \$184 billion, of which members pay in about 10 %

Annex 2

IMF Staff Work on the Environment

(February 1995)

1. Background

The Fund's focus in the environment area is on the relationship between the macroeconomy and environment, reflecting its primary mandate of promoting macroeconomic stability. Macroeconomic stabilization often leads to adjustment of prices to market levels and a reduction of high or variable inflation, which, in turn, encourages the conservation of natural and environmental assets. The benefits of stabilization policies for the environment may not, however, be realized if property rights are poorly defined or there are failures in markets for natural or environmental resources. Consequently, it may be important to introduce structural measures along with stabilization policies.

The Executive Board decided in early 1991 that the Fund should assign a number of staff to do exploratory work in the environment area in light of the potential interrelationships between the macroeconomy and the environment (deteriorating environmental conditions can also affect the sustainability of macroeconomic balances). The staff assigned to this task were asked to examine the impact of macroeconomic policy on the environment and vice versa, and to enhance the staff's awareness of environmental issues, consistent with the Fund's main objective of securing domestic and external financial stability in a sustainable manner.

2. Past Work

Past Fund work on environmental issues has concentrated primarily on four areas:

1. **Examining the effects of macroeconomic policy on the environment by reviewing the research carried out by specialized environmental institutions, including the World Bank.** The results of this work are summarized in various papers presented by the staff. (See attached list of references).
2. **Increasing staff awareness of relevant environmental issues and staff understanding of the interactions between the environment and the macroeconomy.** This work is summarized in an Executive Board paper that was issued in late 1993 (IMF 1993b). A country-specific environmental information database, drawn from the World Bank, national authorities and other sources, has been developed and is available in-house.
3. **Engaging in a dialogue with non-governmental organizations (NGOs).** In May 1993, the Fund hosted a seminar, attended by over 20 NGOs from around the world, that explored the links between macroeconomic policy and the environment (IMF 1993a).
4. **Exchanging views on the macroeconomy/environment interactions with national governments.** Staff regularly report on environment issues that have been discussed during the course of Fund missions.

3. Ongoing Work

The Fund's work on the environment continues in the following areas:

1. **The links between the macroeconomy and the environment continue to be examined.** Much of the Fund's understanding of these links in the past was based on general principles. Further efforts in this area are now being directed to reflect the importance of country-specific circumstances. A second seminar on macroeconomics and the environment is scheduled for May 1995.
2. **The staff has expressed its readiness to integrate the financial and fiscal implications of National Environmental Action Plans (NEAPs) and Sustainable Development Strategies (SDS) into policy discussions.** An exercise in examining the macroeconomic implications of a country's NEAP and SDS has been commenced.

3. **Fund staff continue to liaise with the NGO community to discuss environmental issues of relevance to the Fund, such as the implications of stabilization and adjustment programs for the environment.**

4. Collaboration with other International Organizations

The World Bank, along with the United Nations and other multilateral institutions, have primary responsibility in the area of the environment. The Fund draws on the environmental expertise of these organizations whenever needed.

The Fund continues to participate in multilateral forums, including the United Nations Commission for Sustainable Development (charged with monitoring the implementation of agreements reached at the Earth Summit), the Inter-agency Task Force on Environment Statistics (charged with developing integrated environment and economic accounts), and the GATT/WTO (charged with discussions on trade and the environment).

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Annex 3

The IMF should [CONTINUE TO] focus on short-term economic stabilization, liquidity provision, and securing properly aligned exchange rates. In doing so, the IMF should help to establish stable and sustainable macroeconomic and balance of payments conditions that do not lead to unacceptable social and environmental costs, and that [HELP] promote the objectives of sustainable development.

The IMF should assist countries in getting the [ECONOMIC] fundamentals right, ~~including the ecological fundamentals.~~ [AND WITH THE ASSISTANCE OF THE WORLD BANK AS WELL AS WITH THE AGREEMENT OF THE COUNTRY AUTHORITIES, HELP MAINTAIN THE ECOLOGICAL BALANCE.]

The IMF should ~~ensure~~ [ENCOURAGE] that countries [DO NOT] ~~are not forced to~~ over-exploit natural resources and especially unique ecological capital, to meet foreign exchange requirements and debt payments. Long-term development and global prosperity depends upon protecting and increasing these stocks of natural resources.

IMF-inspired tax and revenue, ~~policies and the effects of IMF-supported adjustment efforts through~~ subsidies, and pricing policies should be systematically examined to ~~determine~~ [MINIMIZE] their effects on the environment and social well-being of ~~adjusted~~ countries.

Annex 4

Environmental Review of Multilateral Development Banks

The G7 should call for a review of the environmental performance [WORK] of the IBRD~~the IMF~~ and the multilateral development banks, including an examination of how these institutions might deliver their programs at less cost and with less overhead and overlap. Such a review should begin by assessing performance based on the four criteria identified by G7 heads at the 1994 Naples and 1993 Tokyo Summits:

- environmental appraisal of projects and public reports thereon;
- the incorporation of environmental programs into their programs;
- the promotion of local participation; and,

- the provision of growing resources for health, education, family policies and environmental protection.

The G7, at Halifax, should identify and endorse additional criteria, notably the creation, within each institution, (~~the IMF~~ the IBRD, and the regional development banks), of an environmental "auditor general" or Commissioner for Sustainable Development, modelled on the recent creation of the position reporting to the Parliament of Canada, so that an ongoing review and screening process could be institutionalized. This would also increase transparency and provide a procedural guarantee that sustainable development will be seriously considered in the implementation of all policies and programs.

6 The World Bank

Len Good

The occasion of the 50th anniversary of the Bretton Woods Institutions has been used by many as the partial basis for asking the question: is there a need for reform of these international financial institutions? Posing the question in this way automatically puts one on the path of thinking about major surgery and radical reform. This tendency can be worrying because evolution has always seemed to be the way of making successful changes in institutions that have a large number of stakeholders.

When one thinks about the International Monetary Fund (IMF) and the World Bank over the last 50 years, one has to conclude that their evolution has been quite significant. The IMF has clearly grown and changed from an institution that was initially in the business of supporting fixed exchange rates. After 1973, the nature of the work changed and the IMF concentrated its resources most heavily on macroeconomic stabilization, deficit reduction, and inflation reduction, as objectives to be achieved for financing general balance of payments stabilization. So the IMF has evolved and will continue to evolve.

The World Bank has also undergone significant evolution. At the outset, it focussed primarily on funding investment projects of a fairly defined and concrete nature, such as the building of bridges and dams. In the 1970s, there was a need for fast-disbursing loans to countries that had been hard hit by the oil crisis. The Bank got into the business, not dissimilar to that of the IMF, of making fast-disbursing loans for balance of payments support — general revenue financial support in exchange for a country meeting certain kinds of sector-wide (as opposed to

project-specific) conditions. This shift represented a major change in the business of the World Bank.

When dealing with the reform of the international financial institutions (IFIs), there is some difficulty of definition. It is not always clear what part of the spectrum of IFI reform to focus on, because it is a fairly wide spectrum. For the sake of convenience, one can divide the issue into three categories. One might be called shock management; the second, policy responsiveness; and the third, overlap and duplication, which is almost synonymous with institutional issues.

First, shock management has been raised recently because of the Mexican peso crisis. Questions arise such as, is the problem, which arguably derives from the increased significance of private sector capital flows and the associated volatility and risks, a systemic one? Increasingly, the answer to the question seems to be yes, it is systemic. Therefore, what should be done about it? Ministers in Halifax are likely to consider this as an important issue and to ask questions about whether the IMF needs new instruments, whether it should be in the surveillance game earlier, or whether it should be more decidedly in the surveillance game. These are all good questions, and it is a very important area. Nevertheless, it is only one area on the spectrum of IFI reform.

Second, under the heading of policy directions and IFI responsiveness, there is a distinction between two sets of questions that one can ask. The first set involves some major policy issues that exist in the development field and which have to do with the allocation of funds from the IFIs, particularly the World Bank. The allocation of funds across regions

and basic strategy orientations becomes particularly interesting when one sees what is happening (and not happening) in Africa, and what is happening in the countries of the former Soviet Union.

The second set of questions involves the responsiveness of IFIs, particularly the World Bank, to crosscutting policy issues. The World Bank is perceived as an institution that has been slow to respond to the crosscutting policy thrusts which have emerged in recent years, such as the environment and sustainable development, poverty reduction, women and development, private sector development, and what the Bank calls "beneficiary participation," which is the involvement of local groups in the development of projects and policies. While the Bank may be seen to have been slow, as a general proposition, the Bank has been relatively responsive to these new issues.

For example, on the environment and sustainable development, quantitatively, when one looks at spending on fairly narrowly defined environmental projects between 1986 and 1989, total spending was about \$28 million. And the total number of projects in that four-year period was about 15. Between 1990 and 1994, total spending increased by \$326 million, and the total number of projects defined as environmental rose by 103. That is a significant quantitative response. Qualitatively, there are a number of signs of change in the Bank's approach to the environment and sustainable development which cover such items as assistance to 25 countries in 1995 to produce national environmental action plans. The improvement is due partly to the increasing role of environmental assessments, and to the way in which the Bank goes about assessing the developing projects. The improvement reflects the Bank's methodological contribution. The Bank is past the point of saying: we should do methodological work and environmental national accounting. It is doing it, and it is doing some

impressive and pioneering work. And the Bank's internal procedures and organization increasingly reflect the need to build sustainable development into its thinking. Programs on other crosscutting issues, such as the role of women, may not be as significantly developed as those on environment, but they are under way.

There is always room for improvement, and the Bank is facing significant constraints in its operations. Specifically, there is resistance from developing countries with different histories, different cultures, and views which often surprise those with a North American mind-set, to moving quickly in many of these new areas.

As well, the size and complexity of the World Bank group, which includes a number of agencies, (the World Bank, the IDA, the International Finance Corporation, and the Multilateral Investment Guarantee Agency), comprising close to 10,000 individuals, many different cultures, and a geographically heterogeneous Board of Directors, mitigate against rapid change. The question is, in the face of these constraints, are the responses to the crosscutting policy issues as reasonable as can be expected? The answer is probably yes. And the question that should be addressed is: are there changes that could be made to the institution that would make that responsiveness even better?

The third area on the spectrum of IFI reform encompasses the institutional issues — overlap and duplication — such as exist in the UN, for example. Another institutional question that touches the World Bank is the relationship between the World Bank and the regional development banks, such as the Asian Development Bank and the African Development Bank. There is probably significant room for improvement in the coordination between the World Bank and the regional development banks. There is a major task force now in place which is examining these kinds of questions, and it is expected to report on an

interim basis late in 1995, with a final report due in 1996.

In regard to the relationship between the Bank and the Fund, there are strong arguments about the potential value of integrating the two institutions. There is tremendous duplication at the administrative level, with the organizations built on two large bureaucracies doing largely the same thing. The more challenging issue is with respect to their policy convergence or divergence. There appears to be a significant amount of convergence. The Bank is significantly into what is called structural adjustment lending, which is what the IMF does. The economic paradigm that drives the two institutions flows almost linearly from macroeconomic stabilization, deficit control, inflation control, and exchange rate control, which is the preserve of the IMF, into structural adjustments economy-wide, which the Bank and the Fund share, and which covers issues such as trade liberalization, price control, public sector reform, and privatization. And both the Bank and the Fund are providing funds to countries with conditionality attached in these areas. The Bank is even into sectoral-wide adjustment far more than the Fund, which is the next step, but again with economy-wide conditionality attached to the financial sector, the health sector, the energy sector, and so on. Finally, at the end of the spectrum is what was traditionally considered the Bank's role: the financing for investment projects, schools, bridges, and so on.

Developing countries question this paradigm, but that is a separate issue for discussion at some other point. Further, developing countries question the social impact of some of the conditionalities that both the Fund and the Bank insist upon in return for lending, and they question the developed countries' adherence to the paradigm.

Structural adjustment projects at the Bank clearly touch upon the business of the IMF and could act

as a basis for much closer, if not total, integration of the two institutions. However, over the past year, the Bank itself has been moving back to its original lending function, which involves less lending for structural adjustment and more lending for projects. At the same time, the IMF is increasingly focussed on the need for more surveillance at the very front end of that paradigm. So, the two institutions are actually moving further apart in terms of the points and the paradigms upon which they are focussing, which suggests that perhaps both institutions should be maintained. This trend is reinforced by the fact that the Canadian constituency in the Caribbean and other developing countries are sometimes highly critical of the IMF. If the Bank is going to be successful in implementing projects in developing countries, it must be seen as a friend. The greater the differentiation between the two institutions, the easier it tends to be for the Bank to get its job done.

In summary, IFI reform covers a broad range of quite distinct propositions and areas. The topic is in need of problem definition. The more one can sort out where on the spectrum one wants to be, the better.

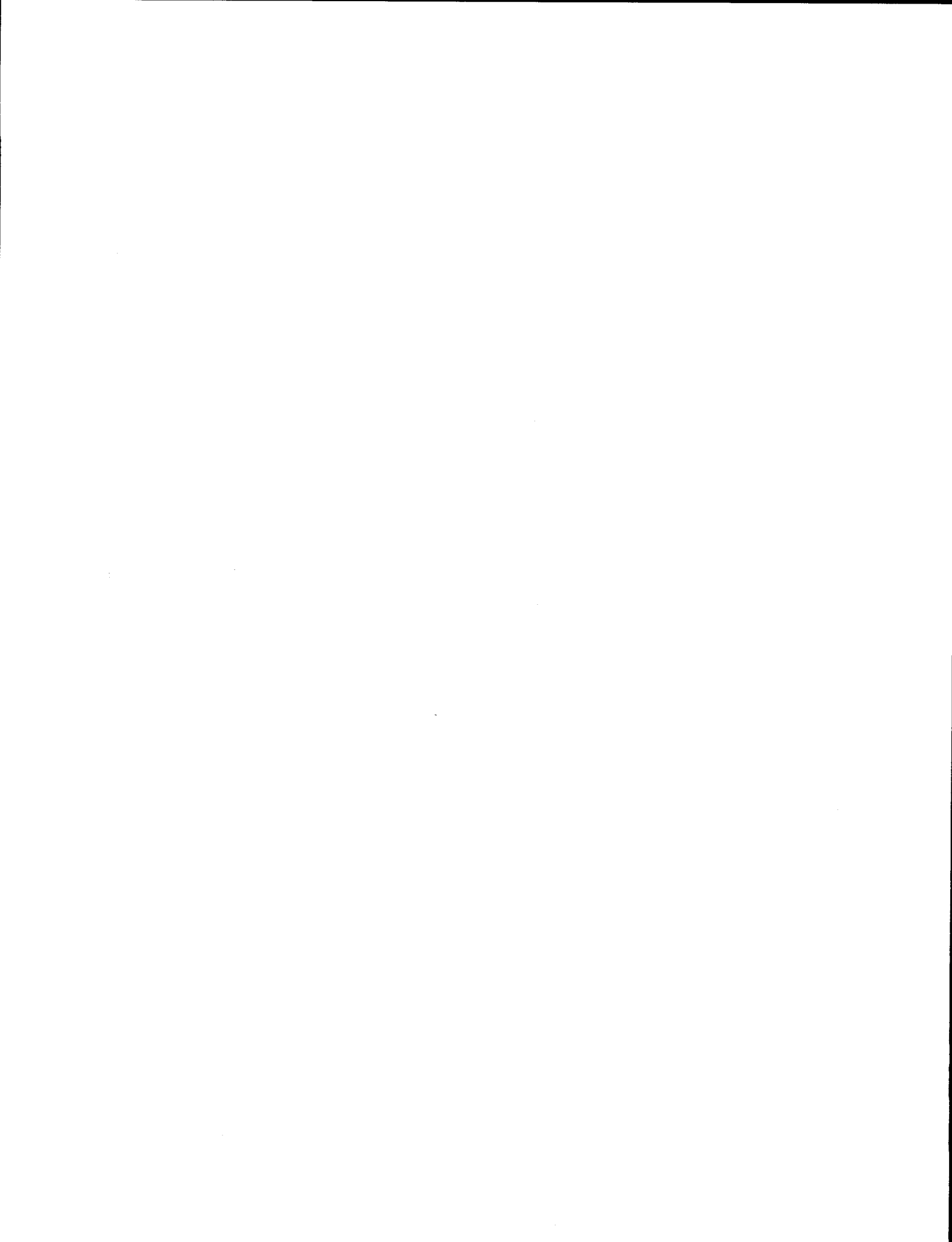
Although the World Bank is doing a reasonable job in terms of responding to crosscutting policy issues such as sustainable development and poverty, there is room for improvement with respect to policy implementation. It is one thing to have the policies, but it is another thing to implement them. In areas such as resettlement, the Bank has been criticized for not following its own policy. In 1994, an inspection panel was created, the purpose of which is to respond to complaints that the Bank is not following its own policies. This is a useful institutional change, and it clearly illustrates some progress.

With respect to the Bank's relationship with the regional banks, there is some evolutionary rather than radical change due in the long term, which

might involve making the Bank's lending role less significant. Private sector capital flows are increasing while governments' capacity to channel financial resources into official development assistance is flat or decreasing. So the relative importance of flows through the IFIs is clearly going down, and that trend is likely to continue for the next decade. In this context one must ask: what is the relevance of, and what should be the focal points for, the World Bank? Given that it will do less lending, should it consider becoming more of a service-oriented institution which could promote more and better technical assistance to countries,

better policy dialogues with the developing countries, and increased coordination among international stakeholders? The Bank can certainly do more, but it will involve a significant reorientation, and will take time. Perhaps that evolutionary process can be started now under its new President.

Len Good is the Executive Director for Canada at the World Bank and a former Deputy Minister of the Environment.



Trade and Environment



7 International Trade and the Environment: The WTO and the New Beginning

Robert Page

Introduction: The Challenge

In 1995, we are seeing the launch of the World Trade Organization (WTO) and with it the international discussions to implement the conclusions of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). This presents a series of opportunities for creating a truly effective world trade regime as never before. In the vigorous public debate on environment and trade, the focus has tended to be on issues not on institutions. While issues provide easy and dramatic copy for the media, it is often institutions which explain an incapacity to deal effectively with issues. Institutions often involve complex structures and procedures, difficult in their own right, but compounded by historic traditions and assumptions understood by few outside the circles of the officials involved. While there are such internal forces of inertia, there are strong external pressures for change. With the launching of the new WTO we have the opportunity for a new beginning.

Over the years, the GATT has successfully projected an image of competence and mystery with its closed-door deliberations and its professional vocabulary and acronyms which compete with the lawyers and scientists. Multilateral trade negotiations are elaborate rituals in semantic gymnastics whereby vested interests have often been disguised in the vocabulary of the

principles of liberalized trade. And the trade sphere was constructed, and has evolved, as a separate and exclusive world of its own, subject to few outside forces, except international economics and politics. While some may resent these circumstances, no one can ignore their significance in understanding the nature of the current impasse in dealing with the new issues facing this conservative club.

Now, as environmental concerns penetrate trade issues, the institutional structures were poorly equipped to respond. This impasse was a natural product of the carefully evolved GATT process. It was designed to deal with one type of issue and it was facing a fundamentally different type of issue. But with the launching of the new WTO in 1995 and the negotiated evolution of its structures, this is the essential time for those in the environmental community to make their case for structural changes as trade moves into the transitional stage between GATT and the WTO, before the latter completes the fine tuning of its structures and procedures.

In approaching this topic, it is important to understand and appreciate the entrenched influence of the historic and intellectual traditions of the trade community. Given that these traditions have served members of the trading community well, it is natural that they are reluctant to abandon

their assumptions. The founders of GATT were reacting against the economic nationalism and protectionism which had been so prevalent since the 1880s in Germany, the United States, and even in Canada with the "National Policy" of Sir John A. Macdonald and his successors. Given the events of the 1930s and the World War II, their emphasis was on lowering tariffs and liberating market forces to create a new economic "internationalism." They believed that protectionism promoted rivalries which in the long term caused trade wars. While some of the idealism might appear naïve in retrospect, it was real at the time, and it remains entrenched in the collective wisdom of the trading community, and contributes to its reluctance to change. Unfortunately, the full potential of the theory has always been restrained by the vested economic interests of the contracting parties. Theory has always been subject to political reality. Expanding trade has been the strategic goal of just about every nation.

The rules and the practices of the GATT reflect the uneasy compromises which are an inherent and inevitable part of its operations. Trade has always comprised a key component in power politics, whether in the Pax Britannica of the 19th century or the North American Free Trade Agreement (NAFTA) of today. In neither GATT nor NAFTA is there ever equality of the members without equality in economic power. With the end of the Cold War, there was an enormous decline in the military tension between East and West, but an increase in the economic tensions between western trading partners. Given regional and North-South tensions, it is no wonder that the trade community appears awkward and hesitant. While there has been considerable progress on reducing tariff barriers in successive rounds of negotiation, the nature of trade relations has steadily become more complex with a variety of non-tariff barriers. The boundaries of trade now appear to be blurred with a variety of social, labour, and environmental concerns,

threatening the traditional discipline and orthodoxy in the field. The problem for many traditionalists is not that environmentalists want some new role for the GATT, but that they want to change the nature of the game as it has evolved since 1948.

The historic assumptions of trade economics go back to Adam Smith in 1776, and are perceived to have stood the test of time. Trade is based upon economics, while environmental protection is based upon scientific assumptions. Some argue that they do not lend themselves to integrated analysis, especially when some key environmental issues are not easily quantified in dollar terms or, as in the case of global climate change, are based on future projections. They believe that the fields are inherently different and that they should be handled to the greatest degree possible in separate forums and institutions. Others argue that they must be integrated because trade policies are an essential component for sustainable development. These are important considerations in approaching the forthcoming G7 Summit in Halifax in June.

The Agenda

The work in preparation for the 1995 Halifax Summit demonstrates the leaders' clear interest in following up on the central question posed at the 1994 Naples Summit: how to reform international institutions so as to best foster sustainable development, growth, and expanded trade. A serious evaluation of international institutions is particularly timely in this, the 50th anniversary of the Bretton Woods and UN systems. Indeed, in sharp contrast to the year before, the Naples communiqué welcomed "the work on the relation between trade and environment in the new WTO." As well, in April 1995, two months prior to the Summit, the G7 environment ministers will meet in Hamilton, Ontario, to consider their own common

concerns. Thus, in the first six months of 1995, there will be two major meetings which could advance the agenda with regard to the relationships between economic institutions — including the new World Trade Organization — and environmentally sustainable economic development.

It is essential at this point to go back and look briefly at the birth and evolution of these institutions. The context for the founding of GATT is important in understanding both its strengths and its limitations as an institution. Following the intense protectionism of the 1930s and the economic dislocations of World War II, the founders sought to create an international environment for economic recovery and stability through trade liberalization. The most pressing concerns about currency stability and capital flows for reconstruction were addressed at Bretton Woods with the creation of two key institutions, the International Monetary Fund, and the International Bank for Reconstruction and Development (the World Bank). The establishment of an international trade regime proved more difficult.

To govern trade, American officials proposed the creation of the International Trade Organization (ITO) under the United Nations, which eventually emerged in the ambitious model of the Havana Charter. While many recognized the need for a strong trade organization, there were also entrenched critics. In the United States, the proposal triggered strong isolationist and protectionist forces in Congress. Eventually, President Truman abandoned the effort to secure Senate ratification in 1950 and the ITO died. As a result, the main post-war instrument for managing international trade remained the General Agreement on Tariffs and Trade — a trade agreement, not an institution. The focus for the work of the GATT was trade as it was defined in 1948, and it was not to overlap with related social issues which were assigned to various international

agencies such as the International Labour Organization or United Nations Educational, Scientific and Cultural Organization (UNESCO). Trade was a narrow, technical field involving primarily the export and import of natural and manufactured products. The environment was not yet a formal area of study, let alone part of the context for trade negotiations.

Under its basic mandate for trade liberalization and tariff reduction, the GATT achieved solid progress through a series of comprehensive multilateral rounds of negotiations. The last three, the Kennedy Round (1964-67), the Tokyo Round (1973-79), and the Uruguay Round (1986-93) demonstrated the growing complexity of the trade field with increasing emphasis in the negotiations on non-tariff barriers to trade and the steadily widening aspects of trade into investments, services, and other areas. As tariff barriers declined, imaginative protectionists sought other means to restrict trade, and the nature of trade disputes changed. A whole series of new acronyms entered the trade vocabulary, such as PPM, TRIMS and TRIPS. The Uruguay Round negotiations proved profoundly difficult, stalling many times with intransigence over agricultural or other issues where politics and economics combined to defy progress. While the final agreement signed in Marrakech demonstrated significant progress in some areas, such as trade dispute resolution, it fell short of some expectations by excluding key areas such as environment and trade. To complete the Round, certain matters had to be postponed, and in the face of divided opinion, it was the correct decision.

Outside the GATT negotiations there has been a growing chorus of concerned interests demanding institutional change to cope with environmental and trade issues. The Brundtland Commission on environment and development had laid out the basic North-South confrontation on the environment and the weakness of international institutions in dealing with the trade aspirations of

the developing world. There were several serious trade disputes, such as the US efforts to restrict Mexican tuna imports because of fishing methods which trapped dolphins as well as tuna. The GATT panel handled the issue on the basis of traditional GATT law and practice, and their decisions infuriated some environmentalists, who saw the dispute resolution process as biased against the nature of environmental scientific evidence. According to these environmentalists, trade rules had become a major barrier to global environmental protection because of the protection they afforded to recalcitrant states.

The momentum of this movement against GATT increased in 1992 with deliberations at the United Nations Conference on Environment and Development (UNCED) in Rio. The feeling of some environmentalists was that trade sanctions had to be written into more environmental agreements, and that GATT rules and structures had to be changed fundamentally to achieve global environmental goals. Many trade officials reacted in horror and anger that the carefully negotiated progress through GATT would be put into jeopardy by the Trojan horse of the environment. Given the other challenges faced by the trade fraternity, there was great reluctance to make changes which, while addressing environmental concerns, would open the way for similar demands from labour, civil liberties, and other special interest groups. Besides, how did one determine what was legitimately environmental science and what was merely disguised protectionism? Many feared that to open the way for one was to open the way for the other.

Also, UNCED had shown that there was enormous suspicion in the South about environmental standards, which they feared were only a new barrier to trade designed to slow down the industrialized North. By adding environmental

costs, southern products might be made less competitive in northern markets. Some countries of the South view lower environmental and labour costs as a comparative advantage to be protected.

An Environmental Review of the Uruguay Round

As part of the implementing strategy of the Uruguay Round, Canada produced an environmental review of the domestic impacts of the Agreement.¹ While not as substantial as the NAFTA review, and without input from the relevant sub-committees of the International Trade Advisory Committee (ITAC) and the National Round Table on the Environment and the Economy (NRTEE), it was nonetheless a useful internal exercise in weighing the internal impacts and illustrating some of the issues which government officials felt were important. The document avoids taking any very clear stands for Canada. Its basic assumptions and conclusions are quite conservative. "The trade liberalizing effect of the Uruguay Round will promote the more efficient allocation and use of resources and thereby contribute to an increase in production and incomes and to a lessening of demands on the environment." The achievements of the Uruguay Round are presented in a very positive light, and the work program of the WTO, it is argued, "will ensure that progress continues." In the final sentence, the emphasis is on "sustainable wealth generation" not sustainable development.² There does not appear to be any reason for structural changes or adaptations to meet these challenges, and there is some thought that intellectual research and debate must proceed, perhaps even in another forum, before any structural changes to WTO institutions can be achieved.

¹ Uruguay Round of Multilateral Trade Negotiation: Canadian Environmental Review (Ottawa, 1994), hereafter UREER.

² *Ibid.*, 9.35.

The World Trade Organization

Perhaps the single most important product of the Uruguay Round was the establishment of the World Trade Organization to fill the void left by the demise of the ITO in 1950. The Tokyo Round added to the GATT a collection of stand-alone codes to which varying numbers of states were party. The Uruguay Round established the WTO as a comprehensive intergovernmental trade organization to administer and enforce all previous and new agreements. There were important new structures to deal with essential elements of the global trade regime, including a trade dispute resolution mechanism. Signatory parties must now sign on to the whole package of agreements, and can no longer pick and choose among its many codes.

In the preamble of the Agreement, there is recognition of the essential link between trade, economic, and sustainable development objectives. While there are environmental aspects of some of the areas addressed, like agriculture, sanitary and phytosanitary measures, standards and technical barriers, and intellectual property rights, there is no separate effort to deal with environment and trade issues as a whole. However, a trade and environment committee of the WTO was established to carry forward the deliberations in this area.

WTO Trade and Environment Sub-Committee

In the fall of 1994, the Trade and Environment Sub-Committee of the WTO Preparatory Committee began work in advance of the launching of the WTO itself. Its work began with serious tensions between the parties over structure, mandate, and work plan. There was serious debate between southern developing

countries and the developed countries of the North. Some in the South opposed its existence, while others in the North wanted a more vigorous addressing of the problems. Some in the trade community saw the sub-committee as a dangerous precedent, while some in the NGO community had unrealistic expectations about what might be accomplished, given the structure of the WTO. There were also concerns about the transition from the GATT to the WTO, and it was decided to overlap one year to allow GATT to complete work in progress. The following is a summary of some of the Committee's work thus far.

Border Tax Adjustments

Countries may seek to internalize their environmental costs by applying charges to domestic production and products. These producers, however, may claim that they are at a price disadvantage with imports unless a border tax adjustment is applied. While this appears straightforward in theory, it is often far less so in practice. The exporting country may claim it has internalized environmental costs and the border tax is simply a protectionist move. It believes it is its sovereign right to determine the level of environmental protection required. Indeed, different countries have different environmental needs and systems which are appropriate to their own circumstances.

The debate on this topic was vigorous; but no clear consensus emerged. Canada recognized that there was justification for eco-taxes on important environmental impacts of products at the consumption or disposal stage but *not* on impacts at the production stage (PPMs). Canada felt this was "extraterritorial imposition of domestic standards" that had been "clearly rejected by GATT."³ Canada was clearly fearful of the American use of PPM eco-taxes on imports from

³ *Trade Environment*, News and Views from GATT, TE 011, 6 January 1995, p.10.

north of the border. On this and other topics, the Committee's deliberations achieved no consensus; but a series of case studies would be undertaken to clarify the issues.

Environmental Product Requirements

In some countries, tough new packaging and labelling requirements have made it more difficult for imports to compete. While these have been justified in environmental terms, many importers suspect protectionist motives. Some members of the sub-committee have argued that this should be covered by amendments, if necessary, to the agreement on technical barriers to trade (TBT). Sweden argued that recycling and waste management were outside TBT and required new provisions. Canada took a very different approach. It questioned whether the Committee was mandated to examine the relative effectiveness of environmental product requirements in areas like labelling and packaging, and their legitimacy. Besides, life cycle analysis "would be too expensive and too time consuming to be practical." It listed a whole series of weaknesses of analysis, and called for more research on a case by case basis. In contrast, the US announced it would be submitting a systematic framework for analysis of eco-labelling. There was also debate on the methods and merits of recycling. Some countries complained that they would now have to import used materials in order to comply with market access regulations for imports into other jurisdictions. No resolution of the issues was recorded.⁴

⁴ *Trade Environment*, News and Views from GATT, TE 010, 11 October 1994, pp.6-9.

⁵ *Ibid.*, pp. 9-10 and *Inside US Trade*, October 7 and December 9, 1994.

Role of NGOs

One of the fundamental structural issues frequently discussed in the meetings of the sub-committee is the issue of transparency and openness, including NGO participation in, or observation of, the proceedings. This topic clearly showed the overwhelming opposition of WTO delegates to fundamental structural change. Most wanted only national governments represented and NGO input confined to influencing the government representatives preparing for meetings. The US argued strongly for business, development, and environment NGOs to be granted observer status where their work was relevant to the proceedings. It believed that this was simply following the example of many other international institutions and reflected the need for open processes to build public credibility. Canada and many other nations rejected this view, which was eventually withdrawn by the Americans. Even observers would disrupt the proceedings and hinder candor in the interaction between delegations. India felt it would politicize the WTO. The debate ended with a clear majority for release of more information, including documents, but their proceedings would remain private.⁵

The Multilateral Trading System and International Environmental Agreements (IEAs)

At the October 1994 meeting of the sub-committee, the relationship between the GATT/WTO system and IEAs was discussed. The debate focussed on both IEAs and the strong feelings on environmental unilateralism. Many countries, including Canada, strongly denounced unilateralism. All efforts should be put into achieving international consensus to avoid "arbitrary discrimination" or "disguised

protectionism." But there were important exceptions. The Austrian representatives argued that Austrian citizens might demand trade measures to achieve environmental goals outside of existing IEAs and some countries had to show leadership before others would follow. The United States also took an activist approach. Unilateralism took many forms and care had to be exercised when employing this complex term. Multilateral approaches were clearly preferable, but difficult to achieve. The WTO had to devise creative structures to facilitate the measures required. IEAs often required lengthy and difficult negotiations, hindered by vested interests. In these circumstances, countries found it necessary to resort to trade measures "without the cover" of an IEA. The WTO should sanction the use of trade measures "where these enforced or implemented a prevailing scientifically based environmental or conservation norm which had a degree of international legitimacy." Many countries, including Canada, rejected such self-definition of principles and returned repeatedly to the potential for arbitrary or protectionist actions. They sought clearly defined and understood international standards beyond the manipulation of lobbyists. The debate reflected the wide concerns of small and middle powers on the issue of unilateralism.

On the main issue of IEAs which contained trade provisions there was more focussed debate. As yet, only a few IEAs include trade provisions, and none of these have been subject to a legal challenge. Some argued that existing structures, including the WTO dispute-settlement process, could handle any issues which might arise. Some developing countries expressed concern about IEAs which included trade sanctions against non-signatory parties who might be in no position to sign yet, and thus should not be penalized. But there was general agreement that there were problems in the area. Unless the WTO was proactive, it could invite further trade provisions in

IEAs which would increase disputes between the trade and environmental institutions. Two approaches were suggested for handling IEAs, within the WTO system:

1. **Ex Post Approach** — On a case-by-case basis they could rely on recourse to the waiver provisions of the WTO to exempt specific environmental measures.
2. **Ex Ante Approach** — The negotiation of a collective interpretation or amendment to the existing WTO provisions to deal specifically with the issue.

There was general support that trade measures should be the least trade distortive alternative, and they must be in support of clearly defined scientific goals. Discussions will continue.

Market Access

At the November 1994 meeting there was spirited discussion of the issues related to the environment and market access. Countries like Argentina bitterly attacked the massive agricultural subsidies of some industrialized nations, which distort world trade in agricultural products, promoting overproduction and poor environmental practices in those countries. Some of the developing countries expressed their opinion that "environmental conservation and trade protection go hand in hand." Environment was increasingly being used "as a barrier to impede developing countries' access to developed countries markets." The United States cautioned that increased trade on its own did not ensure positive environmental consequences. They had to build a WTO committed to environmental considerations to avoid unsustainable growth. There were also criticisms that developed markets favoured the entry of raw materials, thus limiting value added in the developing world. The entry of more finished products would permit more economic

diversification and less pressure to overproduce environmentally sensitive natural products. In this, as in several other areas, there was fundamental distrust between North and South, which will be a continuing problem for the effectiveness of the Committee.⁶

Subsidies

During the Uruguay Round, there was some progress in attempting to address the highly contentious issue of subsidies. When subsidies and injury are proven, there is the opportunity for countervail under GATT rules. Now there is a definition of the meaning of the term under three separate categories — prohibited, actionable, and non-actionable (permitted). This constitutes an important step forward in managing the problem. It will not eliminate disputes; but they will now focus on determining the category under WTO rules. Environmental subsidies which qualify for exception must be either:

1. industrial research or pre-competitive development activities; or
2. adapting existing facilities to new environmental regulations.

If it is the latter, there are strict further regulations. The subsidy must be:

- a. a one time non-recurring measure;
- b. limited to 20% of the cost of the adaptation;
- c. not to cover the cost of replacing the assisted investment which must be borne fully by the firm;
- d. directly linked to and proportionate to a firm's planned reduction of pollution and does not cover any manufacturing cost savings;

- e. available to all firms that can adapt to the new equipment or production processes.

These provisions clearly limit the scope for allowable environmental subsidies and many existing subsidies would be open to trade action under the WTO rules. The debate on subsidies is far from settled, and will probably surface in the further deliberations of the committee and the WTO dispute-settlement process.

Intellectual Property Rights

The Uruguay Round includes a new agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) which apply to areas such as environmental technology and biotechnology. The agreement sets standards for the protection of copyright, trademarks, geographic product designations, industrial designs, patents, and other issues of a proprietary nature. Many developing countries opposed this as a barrier to technology transfer while industrialized states claimed that protecting patents would increase corporate willingness to export the most advanced technologies. However, the ability to pay remains a major stumbling block. The issue of protecting biotechnology is even more controversial given the concern to protect the diversity of the gene pool from the commercial drive for hybrid monoculture. Both of these topics will provide lively debates for the future sessions of the Trade and Environment Sub-Committee.

Dispute-Settlement Mechanism

The dispute-settlement mechanism is one of the areas of real change from the GATT. New procedures include consultation, conciliation, dispute panels, option for outside advisory groups, and appeals to the new appellate body. Panels

⁶ *Trade*, op. cit., TE 011, 6 January 1995, pp.7-12.

must now proceed on schedule, and their reports will not be adopted unless there is a consensus opposed in the central body of the WTO. Environmentalists are still unhappy with the level of secrecy and the optional nature of utilizing outside expert advice. Proceedings are confidential except that, on the request of a WTO member, a non-confidential summary of documents may be released to the public. The NGO community has no formal standing in the process, and any expert input requested by the panel must be from persons of "professional standing and experience in the field." The NGO community might dispute the conclusion of the Canadian government that "by allowing WTO members to make non-confidential summaries of the submissions of the parties to a dispute...goes a long way in increasing transparency in the settlement of trade disputes."⁷ But this is at least some progress from past GATT practices.

Given the other international financial, environmental, and development institutions with interest in the issues related to environment and trade, there is an essential need for cooperation and coordination of efforts. From the beginning, the Committee has granted to the International Monetary Fund, the World Bank, the UN and UNCTAD observer status. In the fall of 1994, seven more organizations and agencies were added, including UNEP, ITC, UNDP, OECD, and the UN Commission on Sustainable Development. These efforts by the Committee to reach out to other bodies are important initiatives, given the way that the issues of environment and trade cut across institutional mandates. Information flows may not solve the problems, but may help to limit them. It is inevitable that some jurisdictional rivalries emerge. However, the NGO community looks at these observers as precedents for their own inclusion.

Conclusions

The world trading community is at a crossroads with the birth of the WTO. Important work in institutional reform was achieved with the creation of the WTO, including its trade and environment committee. But the intensity of the debate on issues, and the divisions within the global community will probably ensure that progress will be very slow, especially on issues which divide the North and the South. The mandate of the Trade and Environment Committee will be reviewed at the end of two years, and changes will probably be necessary. However, many countries, including Canada, have limited expectations of this committee and, therefore, there may be only limited pressure for changes at that time. The major problem is that the environmental issues to be handled effectively, require structural changes which trigger fears of unilateralism and protectionism. Thus far, the need for sustainable development in trade policies and practices have not overcome these fears of change. Over the next two years, events will help to define that debate, as will the work of other related bodies like OECD, NAFTA, and other regional trade bodies. Environment and trade will be one of the most interesting, complex, and contentious issues for the new WTO as it combines issues of philosophy, structure, and practice.

Robert Page is the Dean of Environmental Design at the University of Calgary, member of the NRTEE and a member of the federal government's International Trade Advisory Council (ITAC).

⁷ URER, pp.32-34.

8 The World Trade Organization

Richard Eglin

Thinking ahead to how G7 leaders might wish to address the subject of trade, environment and sustainable development at the Halifax Summit, there are three points related to the work of the WTO that come to mind. The first is the time frame involved. The second is the so-called North-South issue. The third is the area of institutional arrangements.

WTO Trade and Environment Timetable

Two dates deserve to be kept in mind for WTO work on trade and environment. One is December 1996, when the first ministerial meeting of the WTO will take place in Singapore. The second is 1999–2000, when WTO members will start revisiting the agreements reached in the Uruguay Round to see how it may be possible to extend them.

In December 1996, the WTO Trade and Environment Committee will report to ministers on its progress and put forward recommendations on its further work program. There is not a great deal of time to prepare for the Singapore meeting on a subject as broad as trade and environment. Nevertheless, the WTO Committee has defined its schedule such that all elements of its current work program will have been discussed at least once by September 1995. The Committee will then need to decide what issues might be ripe for results by the end of 1996, and where it might be more appropriate to think in terms of a progress report with an eye to longer-term results.

It is too early to say what issues might be candidates for results in 1996. One that is known to

be high on the list of priorities of certain of the G7 countries is the use of trade measures taken pursuant to multilateral environmental agreements; the G7 wishes to see greater flexibility introduced into WTO disciplines in this area. However, this point of view is not necessarily shared by all G7 countries, much less by many other WTO members, and it will not be easy to find consensus. Differences in points of view, including among the G7 countries, exist for the time being with respect to other elements of the work program as well. Political guidance will be needed later this year on how those differences might be resolved.

Looking beyond the Singapore meeting, there are opportunities to build on the complementarities that exist between trade and environmental policy making. A considerable body of empirical evidence is emerging which suggests that further liberalization of trade encompassing improvement in market access and reductions in domestic support and export subsidisation, can bring benefits from the point of view not only of the trading system but also of the environment.

These opportunities deserve to be clarified and acted upon sooner rather than later. It would appear that environmental communities in certain of the G7 countries continue to regard the relationship of trade and the WTO to the environment as essentially antagonistic rather than complementary. That was evident from the opposition they voiced to ratification of the Uruguay Round results in 1994. To avoid similar opposition in four or five years time to the extension of the Uruguay Round results, the environmental community needs to be convinced that it is in the clear interest of better environmental protection

worldwide and the promotion of sustainable development for the multilateral trading system to be reinforced and for the Uruguay Round results to be built upon further.

A large part of the responsibility for ensuring that the multilateral trading system exists comfortably side by side with multilateral and national environmental policies lies with the WTO work program on trade and environment. Attention to the positive links between trade liberalization, better environmental protection and sustainable development therefore deserves to receive a high profile in the WTO Committee. The success of efforts the WTO brings to bear in this area, however, will depend in part on progress made elsewhere in the next few years; in particular, in moving ahead with the multilateral environmental agenda and on the willingness of the G7 and other industrialized countries' governments to meet the political commitments they made at the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro to support the promotion of sustainable development in developing countries not only through trade liberalization but also by ensuring that the necessary transfers of financial and technological resources are forthcoming.

No North-South Debate

It would be a mistake for the WTO to treat its work program on trade and environment as a North-South issue. There is no evidence that any balance of interests could be found along those lines, and there is a great danger in polarizing the debate.

At the Naples Summit in 1994, Canada was among those countries which suggested that discussion on trade and environment should be concentrated in the Organization for Economic Cooperation and Development (OECD). The OECD has an important

role to play in this area, but it should not be the sole focus of G7 efforts, and the temptation to try to negotiate agreements or understanding among OECD countries before bringing them to the WTO for "multilateralization" should be resisted.

Non-OECD countries have far too great a stake in the outcome of discussions in this area to be left out until the last minute, and the main challenges involved in ensuring that trade and environmental policies are compatible and mutually reinforcing cannot be met without their full cooperation.

Institutional Arrangements

Several aspects of current institutional arrangements have a bearing on the WTO work program on trade and environment.

One is the need for close cooperation between ministries with an interest in the work program at the national level. This is a *sine qua non* for making progress at the multilateral level. It is worth recalling that the WTO is an intergovernmental organization, not solely an inter-trade ministry organization. During the Uruguay Round negotiations, close cooperation between different ministries at the national level was evident in such areas as agriculture, intellectual property, and financial services. Similar arrangements need to be in place to ensure the success of the WTO trade and environment work program.

With regard to suggestions that have been made to establish some new intergovernmental organizations or other body with the responsibility to oversee work on trade, environment and sustainable development, the temptation to place form in front of substance needs to be avoided. It is governments, and not the secretariats of intergovernmental organizations, who ultimately bear responsibility for the results of their efforts in different international forums. Governments are right to insist on the need for close cooperation

The World Trade Organization

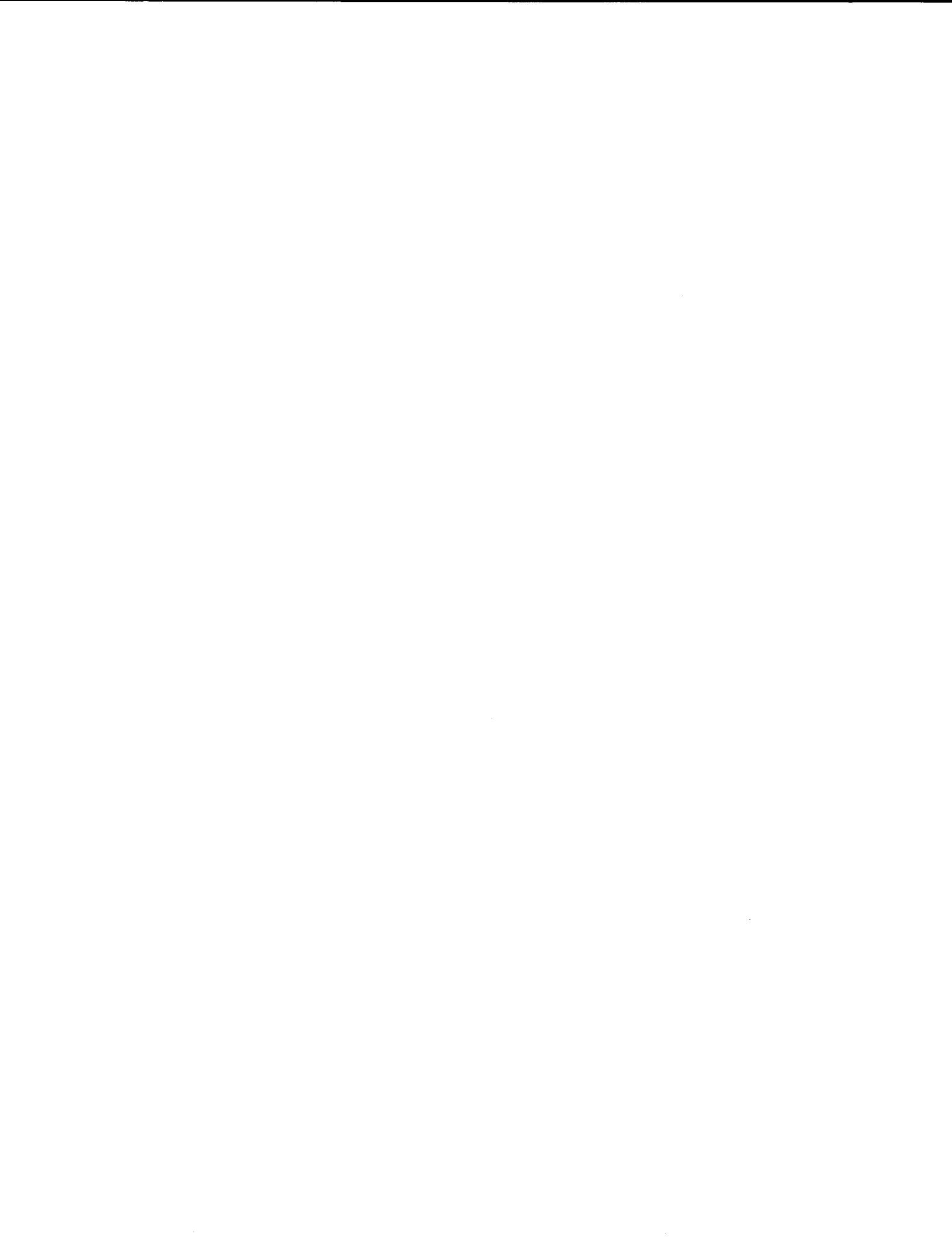
between secretariats, such as exists already among the WTO, United Nations Conference on Trade and Development (UNCTAD) and the United Nations Environment Programme (UNEP), but those secretariats cannot operate outside the mandates of their respective organizations. To the extent there is any real lack of coordination in the efforts under way in different organizations to address the issues of trade, environment and sustainable development, it would seem more efficient and certainly more cost-effective to review and improve on the mandates of existing organizations rather than thinking in terms of establishing new bureaucratic structures.

Finally, WTO members are currently considering what appropriate arrangements might be made for

consultation and cooperation with NGOs concerned with matters related to the WTO. While no decisions have yet been taken, there seems to be little appetite for involving NGOs directly in the work of the WTO. Other arrangements may therefore have to be found, perhaps relying on the WTO Secretariat to operate as one means of liaison with NGOs. In all likelihood, however, the most productive and valuable channels of communications between NGOs and WTO members will be those that operate at the national level.

Richard Eglin is the Director of Trade and Environment at the World Trade Organization in Geneva.

New International Institutions



9 A Global Environment Organization: The Fourth Bretton Woods Pillar?

Dan Esty

This year's 50th anniversary celebration for the Bretton Woods Institutions has created a chance to reflect on the existing international order and a window of opportunity to move our international management system forward. In reflecting on the past 50 years, there certainly are criticisms that can be levelled at all three of the Bretton Woods Institutions; but one has to admit that the international system has done a lot better after World War II than after World War I. Now, the challenge is to look forward over the next 50 years and to determine the structure of the international system that is needed to manage future global issues.

One of the major challenges that separates the next 50 years from the last 50 is a recognition of the world's ecological interdependence as well as the growing economic interdependence of nations. Economic interdependence has been around for some time. Indeed, it was the response to the recognition of economic interdependence that led to the creation of the Bretton Woods Institutions in the wake of World War II. In fact, it was the crisis brought about by the Great Depression and then the War that allowed the leaders of the world at that time to acknowledge this interdependence and to respond to it with an international institutional structure to manage that interdependence.

Today, a similar challenge exists in the environmental realm. But there is no analogous

crisis of sufficient proportions to create the political will to address the challenge. Nevertheless, environmental interdependence must be worked into the G7 agenda for Halifax. True leaders must have vision; they must be able to see the difficult issues of tomorrow and work to address them before crisis hits.

Ecological interdependence necessitates an improved institutional structure for managing environmental problems on an international scale. There are three main reason for this.

First, we now recognize the existence of global environmental issues. Fifty years ago, there was no appreciation of the interconnectedness of countries in an environmental or ecological sense. Today it is clear that there is a great potential for pollution spillovers (or what economists call "externalities") to cause market failure. Thus, ecological interdependence *is* economic interdependence for all countries. Failure to attend to the ecological links has potentially serious implications for trade and other economic relationships.

Specifically, there is a danger of "free-riding." Some countries or industries recognize that they can send pollution up a smokestack or out an effluent pipeline and not bear the costs of cleaning up these emissions because someone downwind or downstream will have to deal with the problem. But there exists real danger in allowing every party, every corporation, or every country to pursue its

own narrow self-interest without taking these spillover costs into account. In a system where this is permitted, the result will be spillovers that are not attended to, not regulated, and which impede the ability of the global market to deliver optimal results.

There is a long history in economics of developing responses to these market failures. In fact, it is a history that is hundreds of years old. The basic thinking is this: where the problem is limited to a small number of people, one can negotiate a solution. And it does not really matter who is assigned the initial property rights, either the polluter or the victim. If the numbers are small, it is still possible to negotiate to optimal resource use.

However, where "transaction costs" are high (that is, where the ability to respond to the problem is made more costly because the numbers are large), an optimal solution is not likely to be achieved through negotiation, and some kind of regulatory structure is required to avoid market failures and inefficient outcomes. For most global environmental problems, where a large number of actors are involved, the best response is, following economic theory, some form of overarching regulatory structure.

Another fundamental lesson from economics is that the best way to regulate spillover problems is to set out structures commensurate with the scale of the environmental harm. Where the problem is local, a local response is appropriate. Where the problem is provincial, a provincial response is appropriate. Where the problem is national, a national response is needed. When it is international, one needs to have an international structure. Most developed countries have created effective local and national regulatory systems — what is lacking is an international system.

There are two other reasons to consider some form of a Global Environment Organization (GEO) beyond the need to provide an international regulatory structure. Specifically, one could

envison a GEO that has a somewhat softer character and a somewhat more muted initial mandate. For example, providing an intersection point for countries thinking about "common problems" — that is, problems that all countries or many countries face. There is a great deal to be gained by sharing information about how to respond to common problems, getting data and the best science to understand them, providing the best risk analysis to figure out what the impacts are on public health or ecological resources, developing a common understanding of possible policy responses, and comparing notes on what works and what does not work. This kind of organization already exists. Indeed, the Organization for Economic Cooperation and Development (OECD) provides an excellent model for intergovernmental cooperation of this sort. There is an enormous benefit to having representatives of the 25 different countries come together, share information, talk through problems, and take home the best thinking about how to respond to the issues that they all face.

There is a third set of issues that also argues for some international coordination and perhaps some kind of GEO. This set derives from the link between economic policy and environmental policy — competitiveness. In an interdependent economic structure, a global marketplace, *how* countries handle their local environmental problems takes on an international dimension. Companies are always asking the question: "Are environmental regulations making me bear costs that my competitors abroad do not have to bear?" That concern is politically very vibrant, even if economists have been hard-pressed to identify it as empirically significant. Even more important is the impact of fears of competitive disadvantage on environmental policy debates. In the North American Free Trade Agreement (NAFTA) debate, for example, Ross Perot made a big splash with his arguments about the giant sucking sound of jobs flowing south and

fanned the fear that US companies would be disadvantaged competing against Mexican companies that might face lower environmental standards or less stringent enforcement.

These competitiveness fears are also illustrated by the collapse of several recent efforts to advance creative and more optimal environmental policies. This "political drag" was clear in the European Union's ability, or lack thereof, to put an energy tax in place. It is also apparent in the United States on the same issue, where the Clinton Administration's Btu tax collapsed in the face of competitiveness concerns.

So there is a real need for cooperation and coordination to ensure that these environment-competitiveness issues do not overwhelm economic interdependence and countries' ability to push toward freer trade. Because the real fear here is not only that environmental policy will be negatively affected by competitiveness, but also that there will be a counterattack or backlash against free trade as an avenue for sustainable development.

But we have seen this issue before in the trade realm. The major powers recognized the "beggar-thy-neighbour" policies of the 1920s and '30s that led to the Great Depression as the result of successive rounds of retaliatory tariff increases. That beggar-thy-neighbour risk forced countries to surrender some of their traditional national sovereignty in order to work together in a cooperative international structure, the GATT. The same risk is at play in the environmental realm with a "litter-thy-neighbour" problem. And there is the same need to have some recognition of interdependence and subsequent surrender of sovereignty to an overarching system that allows all parties to prosper.

One can respond quite properly by saying, "well, we can agree with all of these diagnoses of the problem and not agree with the proposed solution."

However, there are a number of alternatives to setting up a Global Environment Organization.

The first alternative is to do nothing and let the problem lie. That appears to be what is indeed happening. And this is all right as long as the environmental spillovers and the costs they impose are not great. But there is increasing recognition that the costs are significant. In China, for example, there are enormous spillovers from its development path, particularly spillovers from its energy policy, which is heavily dependent on coal. Initial analysis suggests that Japan and Korea are bearing hundreds of millions of dollars of pollution burden from China's coal-burning emissions. And if one puts even a small price on CO₂ emissions, the world is threatened with billions of dollars of additional spillovers due to China's rapidly expanding economic activities. It is important to point out that these spillovers from China are of special note only because of the phenomenal Chinese growth. Countries all over the world are bearing spillovers from each other as well. So the suggestion that pollution spillovers are too small a problem to worry about is inaccurate — and increasingly problematic. Thus, even if "do nothing" seemed like the best policy in the past, prospectively "benign neglect" of international environmental problems is clearly inappropriate.

A second response might be *ad hoc* international environmental agreements. Where a problem is identified, a convention, then a protocol, and then a structure are put together. This pattern seems to have worked, for example, in the case of the Montreal Protocol. Maybe it is working in the case of biodiversity and maybe it is working in climate change. Probably not. These treaties seem to be doing very little. Moreover, enormous opportunities are being lost to address these issues in ways that recognize their interconnectedness. For example, the loss of forest cover is an issue for biodiversity and also for climate change. Managing CFCs is an issue for ozone depletion and for climate change.

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There are considerable synergies to be obtained by addressing these problems as linked.

An *ad hoc* approach also creates a system that results in what some have called "treaty congestion." This issue will become more prevalent in the environmental realm where there are now more than 900 different bilateral and multilateral environmental agreements in place. When the same sort of web of overlapping, and often conflicting, treaties began to be recognized in the intellectual property area, there was an effort to unite that system into a World Intellectual Property Organization. This structure is now in place and has the unfortunate acronym of WIPO. At any rate, the need to unify a disconnected series of international environmental agreements that is becoming increasingly complex and potentially inefficient and ineffective makes the *ad hoc* response to environmental problems less than sufficient.

The third possible alternative might be to fix the existing structures in institutions such as the United Nations Environment Programme (UNEP) or the United Nations Commission for Sustainable Development (CSD). These institutions are, however, beyond repair. The CSD, in particular, has an almost impossible mandate of trying to follow up on Agenda 21 with little political backing and very little budget. UNEP has the additional handicap of having to try and run the world from Nairobi. Although it is politically incorrect to say, trying to do that is very difficult both because of the lack of infrastructure and, more importantly, because of the difficulty of attracting and retaining first-rate people to spend their careers and lives in Nairobi. The contrast with the OECD, which can get good people to go to Paris, or the GATT and the World Trade Organization, which can get good people to go to Geneva, is stark. It is time for international environmental management to stop being held hostage to a political gesture to the developing world. That gesture is important, but

there must be other ways to respond. The international management of environmental problems is too important to be sacrificed.

Finally, the question must be asked: Doesn't the prospect of a GEO run hard in the face of prevailing wisdom that says, first of all, "international organizations are something we do not like;" secondly, "we do not want to give them money;" and thirdly, "the system is so confused, why add to it?" The answer has to be "Yes, there are problems. But when there are problems, one should not stick with the status quo." If there are problems, why not address them and take on the challenge of undoing existing systems, abolishing organizations that are not fulfilling their needs, refining those that are performing, and compressing and consolidating these into a new and better functioning structure? Isn't it right to clean house and consolidate the existing international environmental institutions with new, streamlined, efficient lean operations that can respond to today's problems?

Clearly there are enormous complexities and difficulties, but looking with the kind of vision that includes a 50-year time horizon it becomes clear that these problems are not going away. And the institutional response and how one manages that is quite critical.

Finally, there is another political dimension that deserves quick consideration. To address these issues of interdependence requires an acceptance of something that, at least in the United States, there is currently no acceptance of: that national sovereignty, as the constitutional underpinning of international relations, does not work any longer. Although we have accepted national sovereignty as the absolute starting point since the Peace of Westphalia in 1648, that concept is no longer appropriate in managing present and future global interdependence. We can no longer afford to ignore or reject our ecological interdependence.

A Global Environment Organization: The Fourth Bretton Woods Pillar?

We must acknowledge this new model of the world and work together toward a more sustainable future for all countries.

Dan Esty is a professor of environmental law and policy at the Yale School Forestry, a professor of environmental studies at the Yale Law School and Director of the Yale Center for Environmental Law.



10 UN Agencies and the OECD

Jim MacNeill

In the context of projecting institutional change, Westerners tend to think about the future in rather optimistic terms. The G7 in Halifax will be in large part a celebration of the positive consequences of globalization, open markets, and new technologies. The leaders will rightly look with favour on the enormous growth prospects in China, South-East Asia, parts of Latin America and Eastern Europe; prospects that have made frequent fliers out of western leaders opening doors for vast trade delegations.

But there is another side to this. The glass is not only half-full, it is half-empty. The Brundtland Commission found in its work that since World War II there has been a steady, decade-by-decade increase in the frequency, the scale, and the impact of environmental disasters, and also the economic, social, and security crises that are rooted, in part, in those disasters. These trends are continuing and are in the news everyday, although often the commentators do not link them to ecological breakdown. There is famine, there are refugees, and a growing set of crises in Africa, the collapse of fisheries on the east coast of Canada and elsewhere, the loss of forests, the loss of species, marine disasters — and so goes the litany.

The driving forces behind these trends ensure that they will get worse before they get even worse. The global population will double in the next 35–40 years, and, at the same time, arable land will be more than cut in half, per capita. The rising incomes and levels of consumption built into the incredible growth prospects in some parts of the world are based largely on traditional forms of energy and agriculture and urban development. And traditional forms of development draw down

the base of ecological capital needed locally and internationally to continue the process of development. New technologies like genetic engineering, biotechnology, and the communications revolution all hold great promise, and they may well ameliorate the impact of rising numbers and rising consumption. Or they may make it worse. Western technological optimism always assumes the best; but the fact is that we don't know what might happen in the future, nor is history always encouraging.

In this context, there are two critical questions. The first is: can the international community increase its institutional capacity to deal with the negative environmental, social and security effects of these trends? If so, how can this best be done?

The second question is: can the international community make its development agencies, trade agencies, energy, agricultural, and other sectoral agencies directly responsible and accountable for formulating policies and budgets that encourage development that is sustainable in the first place? In other words, can the environment, the economy, and political considerations be integrated into decision making to ensure that environment, economy and trade are more mutually reinforcing? The opportunities here are absolutely enormous. If this can be done, how can it be done best?

Separation or integration — or both? These are the two questions that must be addressed.

With regard to the first question, Dan Esty says that the international community needs a new Global Environment Organization (GEO). He says that the United Nations Environment Programme (UNEP) can't do the job needed. Why? Because of its

limited mandate, its derisory funding, its location in Nairobi, and so on. The international community therefore needs a new GEO, modelled after a combination of the General Agreement on Trade and Tariffs (GATT) and the World Health Organization (WHO) with perhaps a little of the International Labour Organization (ILO) thrown in, a big boy or girl that can stand up to the big boys and girls as the fourth pillar of the Bretton Woods system.

Given the trends, I believe we need an international environmental protection agency as proposed by Dan, and we need it urgently. But, like it or not, we must build on what we've got. We must build on UNEP. Cleaning house and starting from scratch is not a political option. To move in the direction of a Global Environment Organization, UNEP must be built upon. Given the politics of the United Nations, scrapping UNEP, as Dan suggests, is simply not an option. If Dan's proposal for a GEO is seen as a threat to UNEP, the Kenyans will mobilize the Africans, the Africans will trigger Southern solidarity, and his initiative will be dead in the water.

The same could be true of the alternative recommended by the Commission on Global Governance: transforming the Trusteeship Council into the Trustee of the Global Commons and "the primary UN forum on global, environmental, and related matters." In its report, the Commission makes mention of a role for the UN Commission on Sustainable Development (CSD); but I can't find what role it proposes for UNEP. Is it to be subsumed in some way?

These are important questions. There is a clear need for an international environmental protection agency to deal with the negative trends that are in the growing pipeline of unsustainable development. But it *must* be presented in a way that incorporates the interests of the existing agencies. In my view, the NRTEE's Task Force should endorse the draft recommendation that the

G7 support a properly constituted and properly mandated study of the options, including the role of UNEP, the CSD and other agencies. It may well conclude that UNEP should evolve into something along the lines of the separate international environmental agency proposed by Dan.

The second question concerns integration. Can the international community integrate the environment into economic and political decision making? This question is even more important than the first. If environmental agencies are given the mandate and the necessary resources, they can deal with some of the negative effects of unsustainable economic, trade and other policies. They can reduce certain environmental emissions, (the Montreal Protocol has done so with CFCs), and they can *recycle, reforest, rehabilitate and restore* other damage after the fact. But, unfortunately, environmental agencies cannot do much about the policies and the budgets that are causing the damage in the first place. They can certainly study; they can exhort; they can act as a conscience, a proselytizer, and an advocate; they can demand; they can pound the table; but when push comes to shove, they cannot make the decisions that have to be made to change the policies that are causing the problems in the first place, the policies that are driving unsustainable forms of development.

We had an object lesson in this last week when Canadian environment ministers got together in Toronto to decide how Canada would meet its Rio commitment to stabilize CO₂ emissions at 1990 levels by the year 2000. Sad to say, but the ministers decided that they could not decide to change any of the policies driving ever higher CO₂ emissions in Canada.

There is a reason why the federal government's 1994 budget provides \$5.2 billion in subsidies and tax expenditures for the fossil fuel industry, thus promoting global warming, and only \$16.5 million to promote energy efficiency. These figures sadly

reflect the balance of the political forces underlying the Canadian energy system. Environment Canada or UNEP can demonstrate again and again — as they have — that these subsidies don't make any economic sense, or any environmental sense. They certainly don't make any trade sense. Indeed, they are trade-distorting. But until they make no political sense, the subsidies will not change.

The fact is that the balance of political forces between our environment agencies — local and international — and our economic, trade, energy and other development agencies, is grossly unequal. And so is the balance of professional forces. UNEP does not have the professional capacity to stand up to the international economic agencies such as the banks, the International Monetary Fund (IMF), the General Agreement on Trade and Tariffs (GATT), the Food and Agriculture Organization (FAO), or the United Nations Development Programme (UNDP). And even if UNEP did have sufficient professionals on its staff, they could not do homework of comparable quality to some other agencies because UNEP does not have access to the data. The same is true locally and nationally. Despite very good intentions, great effort, and several leaps forward such as the Clean Air Act and the Montreal Protocol, our environmental agencies have fallen further and further behind. If you doubt that, look at the trends since 1972 — the trends that brought us to Rio.

We need an international environmental protection agency. But, in addition, as a matter of urgency, we need to make our economic, energy, agriculture and other development agencies — our banks and trade agencies — directly responsible and accountable for formulating policies and budgets that encourage development that is sustainable in the first place.

Can this be done? Obviously it will not be easy. There are cultural problems and there are political obstacles that cannot be overestimated. But, on

the basis of my experience during the past year, I believe that it is possible to move significantly in the right direction.

Since May of 1994, I have been advising the UNDP on a fundamental reorganization of its work on environment and sustainable development. This experience suggests that the environment can be integrated with, in this case, development policy and resource allocation decisions within a large UN agency. But only if certain preconditions exist. The most important preconditions are leadership and commitment at the top. UN agencies are intensely hierarchical. There is simply no way to integrate environment in economic and political decision making if the person at the top is not determined to make it happen, or if that individual fails to sustain that determination long enough to institutionalize change.

Every institution has within itself a culture to defend itself and to preserve the status quo, whatever that is. This is not necessarily a bad thing, depending on what is being defended.

Ever since the late 1960s, governments and institutions have been under pressure to reorganize to address the environment. This has triggered instinctively (not necessarily by design) a defensive strategy on the part of existing organizations designed to keep the new environmental groups at bay and under control. The strategy is very simple. I would summarize it in three points:

First, keep the environment separate in its own division or directorate within an organization, or keep it within its own agency or department within a government. Second, give the division or agency a limited mandate focussed on the effects of economic and fiscal and trade and sectoral policies, and give it limited instruments to deal with those effects, preferably only after-the-fact, add-on regulatory measures. And third, keep the environment as far away as possible, for as long as possible, from the tables where the key economic

— fiscal, budget, trade, energy — and other policy and resource allocation decisions are made.

That's the strategy in a nutshell. It is built into almost every government and corporation's established institutional culture. And it is manifest in the way that environmental protection has been organized since the late 1960s, both nationally and internationally.

Most recently, this institutional culture was in evidence when the drafters of the North American Free Trade Agreement (NAFTA) decided to establish a separate organization, the North American Commission on Environmental Cooperation (NACEC), to deal with the environment (after President Clinton was elected and something had to be done). The Brundtland Commission recommended the integration of environmental and trade agendas around a single table and within a single organization. In the case of NAFTA, this option was not considered or, if it was considered, it was not favoured. NACEC can do important things, but the NACEC table and the NACEC agenda are not the NAFTA table and the NAFTA agenda. The same thing appears to be happening in the World Trade Organization. That is, separation, not integration.

It is interesting that separation is often favoured by environmental agencies themselves and by environmental NGOs. Some clearly feel more comfortable dealing with these issues at their own table with their own converted colleagues — their own converted brothers and sisters — rather than at the main table, where they would have to learn a new language and to struggle with the hard politics of economic and trade agendas, and with those representing economic and trade interests.

The World Bank has gone through several reforms in the past decade. Each reform has served to strengthen the environmental division within the Bank. Nonetheless, it has retained the principle of separation. Each stage of reform has been

criticized, most recently by the Bank's own evaluations, for a failure to integrate environmental concerns into the Bank's decisions on energy, agriculture, and other projects. Things have improved enormously; but the pressure is on now for yet another reform in the World Bank. This time I hope there will be a stronger move in the direction of integration. The IMF is considering whether to deal with similar pressure to bring environment into the Fund. The IMF should decide to do it and to do it in a way that ensures integration at the top rather than separation down below.

To some extent, the Organization for Economic Cooperation and Development (OECD) is a model of what might be done, not because of any design (a separate environment directorate was established in the OECD in 1970) but because it is a small organization. All directors at the OECD have equal access to the Secretary-General and ready access to the OECD Council. As a director for eight years at the OECD, I launched joint working parties with the economic, agricultural, energy, and some other directorates, with the full support of the Secretary-General. Without that support it could not have happened. And even with that support, overtures to the Trade Directorate were smothered with friendliness: nothing ever happened, and it was never clear why.

Finally, a brief word about interagency coordination — the siren call of the second committee in New York. When young diplomats at the UN run out of substance they fall back on a standard speech calling for better interagency coordination — speeches that were very likely first written in foreign affairs departments back in 1946 and are simply dusted off every year and repeated.

Everybody agrees that interagency coordination is absolutely essential. This conviction results in numerous exercises in the United Nations where there are interagency commissions, committees and task forces. In UNEP, there is a committee

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called SWIMTEP, which absorbs enormous energy on the part of senior officials in all agencies who go from meeting to meeting to meeting *ad infinitum*.

Two comments on this: one, the transaction costs are very high; two, the results are extremely minimal.

If effective interagency coordination is beyond the reach of the international system, it is because it is beyond the reach of national systems. Every agency in the international system is a client of a different national department. FAO is the client of the departments of agriculture. The World Health Organization is a client of health departments. UNDP is a client of the Canadian International Development Agency (CIDA) and other aid agencies. The World Bank is a client of finance departments. UNEP is a client of environment departments, and so on. Delegates to the governing bodies and the working groups of these

agencies have their own priorities and agendas, which are often in conflict. These agencies often disagree violently at home, and they take their disagreements abroad to continue their domestic fights in the international arena.

There are many obstacles to interagency coordination, and some of them can be repaired with greater or lesser effectiveness. Total effectiveness is probably out of reach, because the real obstacles are rooted in failure at home, and the reform of international institutions for environment and sustainable development must begin at home.

Jim MacNeill is Chairman of the International Institute for Sustainable Development, Senior Advisor to both the Administrator of the United Nations Development Program and the International Development Research Centre.



International Perspectives on the Halifax Summit

11 An American Perspective

David Hale

At present, both the Under Secretary of the Treasury and the American Executive Director for the International Monetary Fund (IMF), are so consumed by the international monetary crisis in Mexico, that they are still formulating their positions for the Halifax G7 Summit. As a result, they will be interested in the material on sustainable development that the National Round Table on the Environment and the Economy (NRTEE) is preparing for the Prime Minister of Canada.

In setting the stage for the Halifax Summit in June, it is important to consider where the Summit fits into the sequence of international institutional evolution since World War II. It is now 51 years since the Bretton Woods Conference in New Hampshire, and 21 years since the G7 process began in the mid-1970s with the first OPEC (Organization of Petroleum Exporting Countries) crisis. And it is six years since the end of the Cold War. This Summit should be viewed in the context of the world after the Cold War. And the international environment for the post-Cold War era is still being created. Issues are still being addressed on an *ad hoc* basis that were addressed much more systematically at Bretton Woods in 1944 and, to a lesser extent, in the Treaty of Versailles in 1918–1919.

Looking back on the past six years, there are three very distinctive characteristics of this post-Cold War era which will be setting the stage for what happens at Halifax in June. First is the relative poverty, in the 1990s, of the public sector compared to the private sector.

At the end of World War II in 1945, the public debt of Great Britain and the dominions of the British

Empire was about 150–200% of GNP; in the United States it was 125%. It then fell for three decades because of economic growth and because of relative fiscal austerity of the US, Britain, the Dominions and other industrialized countries. But over the last 20 years there has been an explosion in public debt because of the growth of transfer payment programs and also, in recent years, recessions in some industrialized nations. And today, looking around the industrial world, it is clear that there are several countries — Canada, Belgium, Italy, and soon Sweden — where the public debt to GNP is now over 100% again. Adding on unfunded public sector liabilities for pensions and health insurance systems, the numbers rise to 300–400% of GNP. This includes the US, where the ratio of public debt to GNP is still only about 50%.

There has never been, in the history of the world, such serious public indebtedness as a constraint on other areas of public policy. The private sector, by contrast, is in much better shape. In many industrial countries private pension systems are now equal to 60 or 70% of GNP. In the case of Japan, there is a very large insurance sector with assets almost as large, and there has been tremendous growth of other forms of private savings. So there is a great divergence which has, in turn, shaped in a powerful way the contours of the world economy and the world financial system since 1989 and the end of the Cold War.

Over the last five years, the balance sheet of the World Bank has been static, and indeed it shrank a little bit in the last couple of years. The IMF has also had a static balance sheet. The last increase in its capital occurred in the early 1980s. An

attempt last year to increase the capital of the IMF to reflect the new membership of countries from the former Soviet empire was voted down. And there is still continuing discussion about how to expand its resources this year.

Meanwhile, private capital flows to the developing countries, or what are called on Wall Street "the emerging market countries," have boomed. Whereas many of these countries were capital exporters in the 1980s because of debt servicing problems, there has been in the last three or four years a very explosive growth in private capital flows to them, peaking 12 months ago at about \$110 billion per annum. So, it is a very different world from the world after World War II when the major focal points for capital flows were the Marshal Plan, the Dodge Plan, and the beginning of the Bretton Woods Institutions, the IMF and World Bank, that have played a continuing role for almost 50 years, but are far less dominant today than they were in the 1950s and 1960s.

The second point is that, as a consequence of these changes in the capital flows, the acceptance of liberal economic ideas in the developing countries, and the end of Communism and the spread of market-based economic systems, this has been the first business cycle ever in the modern era, indeed in this whole century, in which the major growth engine in the early stages of the business cycle was the developing countries, not the US, not Japan, not Europe. There were, in 1992 and 1993, far higher rates of economic growth in East Asia and Latin America than in the traditional industrialized nations. Now, because of the recovery in the banking system and the financial systems of the old industrial nations, the developing countries are catching up. And the result is that last year there was a dramatic and unprecedented increase in global interest rates for the first year of a world business cycle. US interest rates doubled, and bond yields in all the industrial nations rose by several hundred basis points.

Indeed, in Canada, bond yields got to the 9 to 10% range even though the inflation rate was only 1%.

This brings into dramatic focus why the issue of sustainable development and the environment will be much more important, not just in the 1990s, but into the 21st century. The arrival of so many new people into the global marketplace for goods and capital, indeed almost three billion people from formerly Marxist economic systems, will not only have a dramatic impact on the rate of output growth, but also on the demand for the commodities and raw materials. As a result, the rate of the depletion of natural resources and pollution will rise.

A few numbers on the level of urbanization in the world economy make this very clear. At the outset of the British Industrial Revolution 200 years ago, only 3% of the world's people lived in cities. By 1950, that number was 30%; now it's about 40%. By the year 2025 it will be 60%. And that percentage will be calculated on a world population of 11 billion or 12 billion people, compared to 6 billion currently. It is a truly dramatic change. The fact is that two-thirds of mankind is still going through the change that industrialized societies experienced 150 years ago. And this change will, in turn, lead to a dramatic increase in emissions of carbon and to various other kinds of pollution.

The third feature of the new post-Cold War economy has been a resurgence of ethnic warfare the likes of which had been frozen for a long time by the Communist regimes in Asia and eastern Europe. As well, there has been the spread of anarchy to many developing countries which, during the Cold War, would have been subjected to far more aggressive intervention by the major industrialized nations or even by the Soviet Union. Countries like Somalia, Liberia, Zaire, and Sierra Leone are now characterized by a form of anarchy that simply would not have been tolerated in the

1970s or even in the 1980s. There is nothing that can be done in the short term about this phenomenon because there is no consensus yet about what kind of international intervention is appropriate, not only regarding non-functional nation states in Africa, but also where there has been a resurgence of ethnic conflicts that began 500 years ago, such as the combat now occurring in the former Yugoslavia and the hostilities which will probably develop on the fringes of what was the Soviet Union. It is certain that within a 10 or 15 year view, there must be agreement to create some kind of new form of trusteeship which will restore core human services in these countries. And with that will come discussions about economic development, the environment, and so on.

Throughout 1994, there were numerous conferences held about the 50th anniversary of Bretton Woods, to discuss the role of the Bretton Woods Institutions and how they should be updated. The general consensus was that great progress was being made in building the post-Cold War economic order, primarily through private sector initiatives. It was further agreed that there would be a role for the public sector on certain issues. For example, it might deal with the backward regions, in particular the African continent, that are lagging because of the breakdown of their political and economic institutions. There will also be a need for the public sector, through the IMF, the World Bank, and other organizations, to play a major role with what economists would call "externalities", the environment, greater investment in various forms of human capital, and other areas. But since December 1994, there has been a dramatic financial crisis in Mexico which will cause a major re-think about the role of the Bretton Woods organizations in the new post-Cold War economic order and about international organizations in general.

Because the Mexican crisis is still evolving, no final and definitive conclusions can yet be drawn. But there appear to be three clear implications on which to focus. First, the fact that Mexico has experienced a major liquidity crisis, despite the fact that most of its economic policies were fundamentally sound, does demonstrate that there is more fragility in this new world financial system than most people would have thought six or 12 months ago. Certainly, in November 1994, there appeared to be a case for a moderate devaluation of the Mexican peso, but the scale of the capital flight that actually occurred once the adjustment was begun — the wholesale collapse of the currency, interest rates going from 15 to 50% — was wholly unpredictable. And now, there exists the serious threat that the Mexican economy may be plunged into a very serious and deep recession that could even destabilize its political system.

To put this into perspective, Mexico needs to have a million jobs a year to absorb school leavers. Last year, because of the constraints on the economy caused by political uncertainty, it produced only half a million jobs. This year it may lose half a million jobs or more. There is no way that the country, now in transition to a multi-party democracy for the first time in its history, can make that transition smoothly with that kind of economic disruption. So, by the summer of 1995, there will likely be a consensus that there is a role for the IMF as a lender of last resort, not just to the poor countries of Africa or central Asia, but also to middle income developing countries that have had, in recent years, much more access to private capital. Even after the Mexican loan, the IMF still has \$60 billion of underutilized resources. But if there is an expanded role for the IMF to play in other developing countries, not to mention what could happen if the former Soviet Union had effective policies for attracting foreign capital, there will be a case for expanding its resources.

Second, the severity of the Mexican recession now getting under way will create strains and tensions in the North American Free Trade Agreement (NAFTA) over issues like the environment. Mexico was becoming sensitive to environmental issues simply because of the enormity of the pollution problem in Mexico City, and because rising income and rising affluence makes people more environmentally sensitive. The risk now is that, given the severity of this recession and the danger of many bank failures and corporate bankruptcies, Mexicans will tend to de-emphasize the environment because of the need to focus on economic survival. This will attract the attention of American protectionists in the US Congress, many of whom abused the recent debate about the Mexican aid program to attack NAFTA. So it is critical that the North American Commission on Environmental Cooperation (NACEC) in Montreal, and the Canadian government, play a positive and benign leadership role to try to make sure that the three countries do not regress on issues of the environment. Certainly it must not be left as an open door for American protectionists because, if they play the leadership role, they will, of course, try to destroy the whole institution, not try to improve it and make it more effective.

The inability of the American president to secure congressional support for the Mexican aid package quickly and effectively provides a stark and important reminder of the constraints on American leadership in this new post-Cold War era. This Congress probably would have voted down the Marshal Plan in 1948, not just the Mexican aid program. Now it is quite possible that, given several more weeks of debate and discussion, the educational process would have gone far enough and Congress would have approved the aid package. But the fact is there was a financial crisis — a liquidity crisis — and the US had to move quickly. And even though President Clinton enjoyed leadership support from House Speaker

Newt Gingrich and Republican Senate majority leader, Bob Dole, he could not carry the back-benchers of the American Congress. Indeed, there was active opposition from Congressman Richard Gephardt, the leader of the Democrats in the House of Representatives.

There are some background circumstances of relevance here. President Clinton himself is engulfed by some very unique scandals. He was the Governor of a state that could be classified as an emerging market, and many of his opponents in the Congress are convinced that he cannot seek re-election; hence, they do not want to squander political capital on helping him. However, the isolationism of the US Congress is disturbing, as is the hostility to Mexico and the general aversion to any active international role for the US. And indeed, half of the members of Congress were elected after 1990, after the end of the Cold War. Canada is accustomed to dramatic rotation in the parliamentary system as witnessed in 1993. But because of the nature of the Canadian Parliament, the leadership process, and the role of the Cabinet, the Privy Council, and the Prime Minister, the changes have not had as constraining an influence on Canadian foreign policy as have the tremendous upheavals that have occurred in the US Congress over the last four years.

In summary, Canada has some very unique opportunities and some unique challenges in hosting the Halifax Summit, as well as in playing a role in other organizations to promote better discussion and more awareness of sustainable development. First and foremost, Canada has a history, as a middle power in the modern period, of using international organizations to leverage Canadian views. Canada has played an active role in the past in the United Nations, the British Commonwealth, and other organizations; and that kind of middle power leveraging should also serve as a precedent for what happens in the lead up to the Summit, and beyond.

However, the G7 is not the optimal organization through which to address many of these issues. It is a wonderful "bully pulpit" for four or five days to dramatize and focus public awareness on issues; but the G7 has no secretariat, hence it is very difficult to have continuing discussion with study groups and so on. After using the G7 as a bully pulpit, Canada should direct its attention to using other organizations as more effective forums for focusing on the sustainable development problem. NAFTA already stands out because the organization now exists, and there will be, almost immediately, a discussion about Mexico violating NAFTA rules as a consequence of the severity of the recession beginning there.

Second, there is an important future role for the Asia Pacific Economic Cooperation (APEC) forum. APEC is still evolving, but it has great potential, for a variety of reasons. First, the major growth in the world's potential pollution problems, such as the growth of carbon emissions in the next quarter century, will be in East Asia, China, Korea and Taiwan, and later on India. It will not be in Africa and Latin America, it will be in Asia, because of the size of the populations there, and because of the head start they have in enjoying high rates of economic growth. Canada is a member of APEC, and so are other countries which are becoming more sensitive to environmental issues. Because of rising affluence in countries such as Korea, Taiwan, Malaysia, and Thailand, there exists much more environmental awareness in those countries today than there would have been five or ten years ago. For example, the Central Bank Governor of Taiwan says that the major constraint on growth in Taiwan is not the labour supply or other economic issues, but the supply of oxygen. Taiwan is a country where the air pollution index is at 400. In Los Angeles, schools are closed at 200. APEC also includes Australia and New Zealand, two of Canada's Commonwealth cousins which have political cultures very similar to Canada's in terms

of awareness of the environment. Canada could easily build in the APEC group a coalition of countries that would promote, through a Secretariat in Singapore or elsewhere, much more effective action in the region to address issues like pollution and protecting the seas.

Third, the existing organizations can also play a role. The G10 with the IMF, the World Bank, the United Nations, and now the World Trade Organization, can also play a role. Canada's leverage will not be as great there as it will be in the other organizations, but it has a role to play.

Finally, the time is right to continue effective action in this area for the very simple reason that there is going to be a long and broadly based global business cycle in the mid- and late 1990s. Despite the Mexican crisis, there will be continuing growth of capital and trade flows with the emerging market countries. The Mexican crisis has some very unique features and there is no reason to fear that similar crises will be reproduced elsewhere. As a result, looking toward 1997 and 1998, there will be a growing awareness in the private sector, not just in the public sector, about the issue of excessive consumption of resources, about the dangers of pollution, and about the hazards to health and to economic growth of having levels of economic development or forms of economic development that are unsustainable.

This focus might not be as intense as it was in the early 1970s when the Club of Rome Report was fashionable. But, the scope, breadth, and magnitude of this global economic expansion will be so great that by 1997 and 1998 there might be a level of commodity prices so high that there will be more and more concern about the environmental side effects of a global business cycle in which five billion people, not just one-and-a-half or two billion people, have market-oriented economic systems and rates of economic growth two or three times as

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high on a global basis as they have had at any other time in the modern era.

David Hale is Senior Vice-President and Chief Economist, Kemper Financial Companies Inc.

12 A German Perspective

Rudolph Dolzer

There are four important questions that should be addressed in the context of this workshop. The first question is where does the international community stand today politically in terms of the international climate for reform of global institutions? Secondly, what is the direction in which the international community should move? The third question is what movement is realistic for the G7 Summit in Halifax? And the final question is what are the political realities in talking about international institutional reform and its effect on the UN system?

With the new US Congress, it appears at this point that expectations for a grand new design of institutions should not be too high. Indeed, with regard to the current international interest in global environmental affairs, priorities have been higher in the last few years than they are today, and this has been confirmed to some degree in the preparations for the Berlin Conference on Climate Change. The German government still wants to make the Berlin Conference a success, and it will be a success; but the yardstick by which success is measured had to be redefined.

During the climate change negotiations in the last six months, several key factors have become evident. First, the major powers in the world, including the United States and Russia, are not generally supportive of environmental regulatory measures at the international level. Second, the Third World, from a completely different angle, is concerned about environmental issues in two ways. The Third World recognizes that there will be problems in China, India, Brazil, and other newly industrialized countries (NICs), but also, green conditionality is seen as a cause for concern. The

Chinese government emphasizes the right to grow and to be industrialized before long. China points out that the West has already gone through the process of industrialization and must not defeat Chinese efforts to do the same. Nevertheless, the Chinese government has made an impressive effort to develop a lengthy national agenda for the environment, having realized that it is in its own enlightened self-interest. It remains to be seen how they translate this agenda into reality.

No one would have expected such an enormous step involving all major authorities in Beijing. Generally speaking, however, China and the Third World are still, by and large, sceptical about developments at the international environmental level.

During the climate change negotiations it has also become apparent that long-term tasks are usually not at the forefront of governments' agendas. In addition, environmental regulation is an international task, and governments have not been keen to espouse matters which they cannot control on the national level and which affect the competitiveness of their economies. In addressing climate change, the German government has committed itself to reducing greenhouse gas emissions by 25% in the year 2005. The government still sticks to this position, but the economic and the industrial communities have made the point that if Germany works in this direction and achieves this goal, only a very small percentage of the global emissions will be reduced by the year 2005. If others continue with business as usual, those national German efforts will be completely wiped out. Why should German industry be subjected to such treatment?

What has also become apparent, and is of some concern, is that in Berlin there may be some kind of confrontation between the developing countries and the developed countries. The argument has been made quite forcefully, especially by the United States, that developing countries must also take action in the near future. Otherwise, the measures to be adopted by the developed countries will not be useful. The answers to the problem are in the Climate Change Convention. First, the Convention explicitly states that developed countries "must take the lead." And second, there is the now famous call in the Convention for "common but differentiated responsibility."

Two requirements emanate from this framework. First, the industrialized states must act first. Second, in the long run, if the developing countries will not act, then the global situation will not improve; indeed it will get much worse. Therefore, the developed world must enter into a dialogue with the developing countries with regard to when, how, and under what circumstances they are willing to take action. First and foremost, a change in their technology path is needed, and especially a change in energy efficiency. These changes will take time, and will not happen tomorrow in China or India, but one must start planning due to the long lead times.

There exists a fairly simple solution. Developing countries should not be asked for commitments right now; but they should be asked to establish some kind of procedure as to when and what, and under which circumstances they would be willing to take some kind of action. This will not be an easy task. China, India, Brazil, and Nigeria, for example, resent such an approach but in the long run it is the way things must move.

So, the short-term prospects for institutional reform are relatively bleak?

First, on a very practical level, in Europe, and perhaps even in the United States, there is an overwhelming concern with political issues which permeate every day life — the issues of Russia and Serbia, for example. Europe has gone through a period of financial consolidation. Europeans, who see media coverage of events in Serbia on television, for example, are going through a period of disillusion with the United Nations which is much more profound than any disillusion being felt in North America. Thus, arguments to improve and strengthen the UN may often fall on deaf ears in Europe. It is a difficult context that must be taken into account as the governments plan for Halifax.

It is unrealistic and over-ambitious to expect substantive results on institutional reform at Halifax.

However, Halifax must initiate a process. In considering what such a process should look like, more interesting questions begin to surface. What is the future role of the United Nations Environment Programme (UNEP)?

In order to consider this, one must ask how did UNEP start? What is the current legislative power of UNEP? In 1972, the major powers insisted that the statutory basis for UNEP define the organization with a small secretariat. Also, coming out of Stockholm in 1972, the major issues were transboundary ones such as acid rain and fresh water. In 1995, the situation is quite different and the issues are truly global. Thus, while UNEP was a good start, it is not equipped to stand up to the challenges of the 21st century.

Should UNEP be blamed for the current situation? There are three important variables; first, the budget of UNEP; second, the personnel situation of UNEP; and third, the location of UNEP. These are all important constraints which contribute to the difficult situation in which UNEP finds itself today. The question is where to go from here? What does UNEP not do today? UNEP is not the authoritative voice on the international environment. The

international environment needs an organization that can parallel what the World Trade Organization (WTO) is to the General Agreement on Trade and Tariffs (GATT), what the World Health Organization is to health, and what the International Monetary Fund (IMF) is to financial stability.

From a practical standpoint, this organization should be built on UNEP. This is the wrong time to begin to talk about a new international organization. Further, moving UNEP out of Nairobi to New York or Geneva brings up a number of very difficult political questions. Developing countries, including China, India and Brazil, will all point out that UNEP is the only major UN program that is located in the Third World. Neither will the developing countries change their course on financial issues. It would be unrealistic and politically unpalatable to move UNEP out of Nairobi, and it would initiate a number of problematic discussions with no practical result.

Instead, the Kenyan government must be encouraged to provide the infrastructure needed for UNEP. It has already done some very useful things, but much more is needed to create a context in which UNEP can run efficiently and effectively. If this proves impossible, perhaps in five years or so it could be reconsidered. Meanwhile, however, decentralization is also an option and UNEP's regional offices could be strengthened.

As well, there might be a fundamental reconsideration of UNEP's statutory basis as a UN program which emphasizes that national sovereignty might be reconsidered in the future. The legal basis for UNEP needs to be changed, and UNEP needs to have new powers.

However, before UNEP can be revamped, many people will argue that it must first show a willingness to exercise those powers that it has now in an effective manner. This is a bit of a catch-22. If UNEP demonstrates a high degree of administrative efficiency, then people will be more

willing to discuss changes within the organization. It is very difficult to get good personnel to Nairobi. In this respect, the best must be made out of the situation.

Given this diagnosis, in Halifax, the G7 leaders should set up a task force to review the current environmental institutions in terms of their jurisdictions, their overlap, their coordination, and their efficiency. From the perspective of overlap, at the moment there are four separate agencies working on methodologies for the identification and measurement of greenhouse gas emissions for climate change, and this in a time of financial cutbacks.

While UNEP might have the mission to be a catalyst, it is never in any position to change the course or the policies of the World Bank, the IMF, the UNDP, or other agencies. So, perhaps the idea that UNEP has a catalytic role must be reconsidered. We need a task force that simply has a mandate to ensure that the work of all the specialized agencies is consistent with the common goal of sustainable development.

UNEP should remain, but should be strengthened. It should not be submerged in a larger sustainable development agency (which does not yet exist); if it is, the environment will not be protected adequately.

The concept of a global trusteeship should not replace an environmental agency within the UN system. Nevertheless, it would be a good idea to have the trusteeship council administer the global commons in a broad sense, including the oceans, outer space and the Arctic.

With regard to the international economic and financial institutions, the objective for Halifax should be relatively simple: to establish a second task force with the mandate to review whether the work of the IMF, the World Bank, the WTO, the Food and Agricultural Organization (FAO), and other

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specialized agencies, is consistent with the objectives of sustainable development. Within the European Union, perhaps the most difficult environmental issue for the future is the common agricultural policy; therefore, internationally, this review has to be broad enough to include organizations such as the FAO.

The IMF has a legal mandate at the moment which is concerned primarily with financial stability and some other issues. Nevertheless, it is necessary to ask: is the work of these agencies consistent with

the objectives of sustainable development? This is not always the case at the moment. It would be a good result for Halifax, if the two task forces could be set up to examine the work of the international agencies and to ensure that they are, at the very least, consistent with the common goal of sustainable development.

Rudolph Dolzer is Director General of the Federal Chancellory of Germany.

13 A Japanese Perspective

Masao Kawai

It is likely that one topic of discussion at the Halifax Summit will be international institutional reform for global sustainable development. The United Nations has been extensively debating development policies and structural changes in the UN itself on the basis of the Secretary General's Paper and Agenda for Development. The main issues which frame the debate can be summarized as follows.

First, in recent years, there has been an enormous globalization of international economic activities which, in a regional context, represent an expansion of the quota-less economy. In functional terms, this has resulted in the integration of numerous economic activities including trade, investment and services. In the face of these developments, various economically related organizations, such as the Bretton Woods Institutions, are no longer equipped to deal effectively with the management of the global economy. The recognition of such a problem seems to underlie the present debate at the UN on the relationship between the UN and the Bretton Woods Institutions.

Second, there is a recognition that a truly effective strategy for development, which is a crucial element in the effort to achieve harmonious global economic development, is lacking. In political terms, in the framework of the Cold War, development issues became North-South political issues rather than economic policy issues. In economic terms, the coordination of the various development-related institutions has been insufficient. These factors have contributed to the absence of a truly effective global development policy.

Third, there is an awareness that the response of the international organizations to new global issues such as environment, drugs, refugees, and human rights, has not been adequate. While individual issues have been dealt with by the existing organizations through a piecemeal approach, the institutions have not been able to develop a comprehensive approach, which is what is required.

All of these considerations are justified. In 1995, half a century after the Second World War, and in an era where issues which require cooperation among members of the international community are no longer held hostage to the East-West conflict of the Cold War, it seems imperative for global stability and prosperity that the international community address these considerations seriously. In retrospect, it was the idealism after the First World War which gave birth to the League of Nations and the establishment of the framework for international cooperation centering upon the UN and the Bretton Woods Institutions after World War II.

Unfortunately, there is no political momentum to create a new international framework. Therefore, while a review of international organizations is called for at the upcoming G7 Summit, it will not produce the kind of revolutionary progress that was achieved following the two World Wars. Rather, this review can only contribute to an evolutionary process in which consensus can be built around the need to adapt the existing international organizations to the present global circumstances.

One of the most serious problems which must be faced when considering the development of the

global economy in the 21st century is that, by virtue of the widening gap in wealth between rich and poor countries, the integration of some developing countries into the global economy is being obstructed. These countries are described by Robert Kaplan in his article "The Coming Anarchy" (*The Atlantic Monthly*). They will become further alienated from the world economy. As such they will cause potentially serious problems, not only from the viewpoint of equity, but also insofar as the gap will hurt the developed world by hindering the growth of the global economy.

However, the end of the Cold War offers a considerable opportunity as well as a major challenge. It certainly presents an opportunity for embarking upon a new strategy for development on the basis of genuine cooperation and partnership, rather than on the basis of confrontation and division. The East-West conflict of the Cold War can be ideologically juxtaposed with the North-South problem which has traditionally made meaningful dialogue and cooperation on development virtually impossible. But this ideological framework does not now exist.

Another factor which has emerged is the remarkable evolution toward diversity that has taken place within the developing world. Growth and development in many parts of the developing world are such that it is no longer possible to talk about the South as one group. What is important is that all these new changes in the developing world have been the result of a new policy orientation on the part of countries and new thinking based on cooperation rather than on confrontation. In this new setting, it is imperative to overcome the conservatism of sticking to the remnants of old thinking, which tends to look at the problem of development within the framework of the North-South confrontation. It is necessary to encourage the development of new strategies based on a partnership between the developing and developed worlds.

Therefore, it is time for the international community, both developed and developing countries, to concentrate its efforts to formulate a new strategy for development. This strategy should be based on a comprehensive approach encompassing all factors relevant to development, including official development assistance, trade, investment, science and technology and, above all, the building of social infrastructure to enable the mobilization of all resources in society. The strategy should be designed to meet the needs of different situations, suggesting different prescriptions for different countries.

Such new strategies based on comprehensive and differentiated approaches should be set up through policy cooperation and coordination between the United Nations and the Bretton Woods Institutions. At the same time, in light of sluggish resource flows for development efforts, it is also vital to ensure the maximum use of limited resources, by strengthening coordination among international organizations. To this end, it is necessary to promote coordination between the UN system and the Bretton Woods Institutions. Such coordination would include the need to control military expenditure for the sake of development in developing countries. In short, the Halifax Summit is the right moment to move forward the discussions on the long-standing issue of improved coordination of development efforts between the UN system and the Bretton Woods Institutions.

As a part of the efforts to strengthen this coordination, the World Bank should participate more fully in the efforts of the UN, while also strengthening its own policies. At the same time, UN representatives should participate more actively in the development committee of the World Bank. As well, the UN and Bretton Woods committee could be restored.

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At the local level, there should be more coordination of integration. At the Halifax Summit, the G7 countries should identify an effective coordination mechanism among organizations such as the World Bank, the United Nations Development Programme (UNDP), and even bodies such as the National Round Table, and give a mandate to an appropriate task force to make further studies on a workable mechanism.

The environment is an area where the international community clearly needs a more effective institutional set-up. It is necessary to formulate a more integrated international framework to address newly emerging global issues, such as the environment, instead of taking an *ad hoc* approach. In this context, the current tendency to create separate institutions for the *UN Framework Convention on Climate Change*, the *Biodiversity Convention*, and the *Convention to Combat Desertification* is too scattered. It is essential to strengthen an existing institution, or to create a new one which could encourage integrated decision making and implementation. It is also critical that the UN Commission on Sustainable Development conduct its discussions with more focus on policy and strategy for environment and development, and exert stronger political leadership than it now does.

Therefore, there is a need for stronger and more integrated organizations for making policies as well as for implementing projects and programs. There is also a need for a strong central forum to discuss international rule making, and to make rules for the member states for conserving the environment. For implementing such rules as well as implementing projects, there should be one large and powerful organization which could be built by enlarging the mandate and structure of the United Nations Environment Programme (UNEP).

There are a number of difficult considerations in discussing the transformation of these institutions and these activities. Nevertheless, revolutionary change to existing institutions is impossible at this point in history, because the post-Cold War international order is very different from that order following World War I and World War II. It has to be an evolutionary process. Strong political will and strong leadership are crucial, however, even for evolutionary changes to the international system over the next few years.

*Masao Kawai is Minister and Head of Chancery,
Permanent Mission of Japan to the United Nations.*

Conclusion

Sarah Richardson and John Kirton

Economic growth and high quality employment, if they are to be sustainable, must fully incorporate ecological considerations from the start, and integrate them at all levels of decision making. Effects of population, increased consumption and economic output, and the stress these variables put on world resources, combined with a global economy that is increasingly borderless, mean that one must incorporate these considerations up front. As this is done, questions arise about the capacity of the international system to meet these challenges and adequately manage the new and complex interdependencies associated with them.

There is a strong link between growth, employment, ecological processes, and poverty in the world. Indeed, the shift of growth to highly populated areas of the the world, in particular in the rapidly developing countries, poses an unprecedented problem for the use of natural resources.

For a long time it was thought that economic growth and prosperity would come from the proper macroeconomic management of national economies with appropriate attention to microeconomic concerns, and through the international coordination of such processes amongst highly interdependent economies such as those of the G7.

The G7 itself reflected this understanding both by conducting itself in a way that segregated various issues, and separated discussions of macroeconomic issues and environmental issues at the annual Summits, and by creating a separate

supporting informal institutional mechanism for finance ministers and deputies.

Following the NRTEE's workshop on February 27, 1995, and considering the background materials prepared by and for the Task Force on Foreign Policy and Sustainability, the members of the Task Force identified six broad areas for recommendations and initiatives.

1. The Challenge of Economic Growth and Prosperity

What has been accepted as the core lesson of sustainable development intellectually should be fully incorporated into the G7 institutionally. It is critical that the G7 continue to address on a regular basis, and in a systematic fashion, their members' and the globe's ecological interdependencies as well as, and as part of, their collective economic deliberations.

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The G7 could move in such a direction not only by referring global or domestic environmental issues to their ministers of environment, but by taking this process to its next stage. This is especially timely for Canada, in light of the recent commitment of the Canadian government to include sustainable development as a major pillar of Canadian foreign policy. Sustainable development includes integrated decision making at all levels as one of its major tenets.

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The leaders should discuss and endorse the need for a strengthened and sharpened focus on, and expanded and/or reformed institutional support for, their global environment and sustainable development agenda.

Under the chair of either ministers of foreign affairs or finance, before each Summit, there should be a meeting on the following three issues:

1. The state of global environmental issues (e.g., climate change, biodiversity, desertification and global fish stocks);
2. Domestic responses to global environment issues in the G7 (e.g., harmonization of legislation);
3. Quality and quantity of Official Development Assistance (ODA) (e.g., to ensure greater equity and social justice, to discuss emerging sustainable development priorities, notably migration and population, and to improve the quality and better coordinate adjustments in the quantity of official development assistance).

These meetings should include environment ministers, natural resource ministers, trade ministers and heads of the G7 development agencies, to integrate a broader-based approach to growth and prosperity issues, and make a major input into the leaders meeting. These Summit portfolio ministers should continue to meet separately. The Chair of the meeting should formally report on the discussions to the leaders prior to the Summit.

National Commissions on Sustainable Development now exist in over 40 countries, including all G7 countries and the European Union. In Canada, the NRTEE was established in 1988 by the Prime Minister of Canada. In the US, President Clinton established the President's Council for Sustainable Development in 1993 as an advisory body to the President. In 1994, a Round Table for Sustainable Development was established in the United Kingdom.

In order to mobilize the expertise of a broader range of stakeholders, the G7 should support the creation of a G7 sustainable development multistakeholder dialogue that would include representatives from business, labour, government, environmental groups, development groups, the aboriginal community, research institutions, the sub-national governments, and others, to discuss key agenda items for the Summits.

2. The Challenge of International Economic and Financial Institutional Reform

The theme of international institutional reform as articulated in the Naples communiqué is ambiguous in its breadth. However, at the very least, it will include the two Bretton Woods Institutions, the IMF and the World Bank, and could well extend to the international economic institutions more broadly, to take in the regional development banks and other bodies.

Any reform of the IMF and International Bank for Reconstruction and Development (IBRD), and the macroeconomic and development systems they govern, has a large and direct relevance for the prospects of realizing sustainable development in the international community and within Canada itself. As the recent case of Mexico demonstrates, major devaluations of a national currency raise the costs of imports of needed environmental technologies or more efficient and environmentally friendly production equipment; reduce foreign markets for the major producers and exporters of such equipment (the US, Japan, Germany and other G7 countries); and thus impede ecological modernization and technological diffusion at both ends. If currency devaluation (or the preceding current account deficits) leads to higher interest rates in, or capital flight from, the devaluing country, the pool of savings for ecological

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investments on the part of the often fragile private sector is further reduced, especially among small and medium enterprises without the capacity to engage in sophisticated techniques for managing foreign exchange risk.

Reciprocally, a movement toward sustainable development is important if the IMF and IBRD of the future are not to be overwhelmed by demands for resources which neither they nor their deficit-ridden major contributors can mobilize and deploy. Most countries of the G7 are running large fiscal deficits, and trends in ODA indicate that while they have risen in all of the G7 countries since 1971 (except Italy), apart from Japan, these increases have been marginal.

National and international macroeconomic policies (such as balance of payments, economic growth and fiscal balances) have clear implications for sustainable development and environmental policies. Certainly one can argue that to the extent that the IMF promotes macroeconomic stability and the removal of price distortions, it also facilitates the protection of the environment. Macroeconomic policy permits increased economic growth which, in turn, makes addressing environment, poverty and other objectives of sustainable development more feasible. Indeed, macroeconomic stability is one condition for attaining sustainable development.

However, macroeconomic stability is not sufficient. A stable macroeconomic situation must be coupled with meaningful domestic environmental policies as well as a market wherein prices properly reflect social and environmental costs. Without all the necessary conditions, macroeconomic policies can promote the production and consumption of resource-intensive products beyond levels which would be sustainable over the long run.

The state of environments and environmental policies in various countries can have important implications for fiscal and macroeconomic

balances. Serious and continuing environmental damage can threaten the long-term balance of payments and growth prospects of a country. Macroeconomic stability can be hurt by reducing potential output levels and economic growth. As well, environmental considerations have, in recent years, played an increasingly important role in international trade. Environmental considerations are beginning to play a role in shaping trading relationships, involving recourse to remedial trade action, sometimes in an effort to offset perceived competitive advantages. Similarly, environmental charges and taxes have the potential to impact upon fiscal balances and prospects for economic growth. Indeed, the magnitude of revenue from environmental taxes, such as carbon, or energy-related taxes, could become increasingly important for financing development in various countries.

Canada is the G7 economy most dependent on natural resource exports for its economic growth. Thus the Canadian economy is particularly vulnerable to exchange rate fluctuations, competitive devaluations, unsustainable development, and overconsumption of scarce ecological capital. Dumping underpriced commodities on world markets in ways that depress prices take traditional markets from more responsible Canadian producers, and encourage overconsumption among the rich. The case of Russian behaviour in the aluminum sector over the past year provides a striking example of precisely this threat.

The current set of international economic and financial institutions is replete with overlapping jurisdictions, behaviours and activities, and uncoordinated priorities. They do not systematically consider sustainable development in all of their decision-making processes. This situation calls for a review which understandably could not be completed during the Halifax Summit but must be started through the establishment of a process

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which could undertake a review of how they can deal with the challenges of the 21st century. This could be accomplished through the creation of a Task Force following the Summit.

A high level Task Force should be struck to systematically review and consider whether the activities of the IMF, the World Bank, the World Trade Organization, the regional development banks, and other specialized agencies are consistent with the practice of sustainable development.

Such a review should begin by assessing performance based on the four criteria identified by G7 heads at the 1994 Naples and 1993 Tokyo Summits:

- the environmental appraisal of projects and public reports thereon;
- the incorporation of environmental considerations into their programs;
- the promotion of local participation; and
- the provision of growing resources for health, education, family policies and environmental protection.

Additional questions that the Task Force should consider include:

- The integration of environmental considerations, systematically, into all of the economic and lending decisions of the World Bank and regional development banks; and
- The creation within each institution, of an environmental "auditor general" or commissioner for sustainable development, modelled on the recent creation of the position reporting to the Parliament of Canada, so that an ongoing review and screening process could be institutionalized, transparency increased, and a procedural guarantee provided that sustainable development

will be seriously considered in the implementation of all policies and programs of the international financial and economic institutions.

Such a Task Force should include members from countries outside the G7.

3. The Challenge of the Poorest of the Poor

Issues of equity and social justice are the third component of sustainable development — poverty has significant economic, ecological and social costs. Low income countries — the poorest of the poor, such as the countries of Africa where the economic, ecological, and social pressures are tremendous — are not benefitting from increased global flows of private capital, and are vulnerable to downward pressures in levels of ODA disbursements. In times of large deficits and shrinking resources, as in the immediate future, Canada and other members of the G7 and developed countries may well see a continued reduction in ODA.

With the creation of borderless economies, the systematic competitiveness approach could litter the earth with losers who will then become the flash points of new conflicts.

This must be addressed, for ethical, economic, security and stability reasons. The new flash spots will be characterized by rapid urbanization, poverty, social and political turmoil, and a large push towards migration, pulled by the prosperity in countries of the G7.

Among the instruments available to meet these challenges are concessional lending, official development assistance, more international mechanisms to create more capital flow, debt management and relief, and forms of conditionality.

Concessional Lending

The globalization of financial markets has permitted some developing countries to access more easily the flow of private capital. Private capital markets have taken over some portions of global economic management. Private capital flows contribute to stability in recipient countries and lower real interest rates at home. The dominant source of private capital inflow (largely bonds and foreign and government direct investment) is directed to some 20 middle countries in Latin America, East Asia and China (China is the largest recipient of any developing countries of private capital flows).

However, low income countries — "the poorest of the poor" — have not benefitted from increased global flows of private capital. Yet, the economic and ecological pressures on these countries, particularly in sub-Saharan Africa, are tremendous. The imbalance in access to available funds should be addressed through increased concessional lending, assistance and trade.

The IDA is the World Bank's soft-loan window and as such is a critical component of the Bank and is intrinsic to its effectiveness and its ability to carry out its mandate. The IDA supports the poorest of the poor. It is the largest single source of concessional financing for these countries, and is also, for some donor countries the largest annual appropriation they make for foreign aid. Generally an IDA loan is long term, for around 40 years, with a ten-year grace period before payments are due. The loans are interest free. In order to qualify for IDA loans, countries must have an annual per capita income of less than US\$1,305, although most IDA borrowers have per capita income levels below US\$805.

As of March 1994, the IDA had 155 member countries. The money that IDA lends comes from contributions from wealthier nations, some contribution from the profits of the IBRD, and repayments of IDA credits.

Over the years, the IDA has played a major role in helping to achieve substantial progress in reducing poverty. But continuing poverty is still a problem, particularly in areas such as sub-Saharan Africa, where one child in every six still dies before the age of five. Poverty has significant economic, political, environmental and social costs. Given the trends in private financial markets, and the lack of concessional funds available from the IMF or the IBRD, the IDA is a critical vehicle to help these sectors, likely to be excluded from any of the benefits of development unless specific efforts are taken.

G7 leaders should declare their support for a replenishment of IDA funds by 1996 for the 1996-9 period at no less than existing levels and with a stronger emphasis on ecological and sustainable development priorities. The World Bank's resources should be focussed primarily on the poorest and least developed countries. The IDA must pay special attention to Africa.

Official Development Assistance

Given that levels of bilateral assistance do not at present reach Agenda 21's target of 0.7%, a second extremely important issue concerns the quality and efficient use of the aid that is provided. Despite the commitments made in recent Summit communiqués to strengthen ODA expenditures, G7 countries were compelled by financial stringencies to decrease their total in 1993 to US\$54.8 million from US\$60.8 million. Moreover, the commencement of large-scale programs of assistance to Eastern and Central Europe in the 1990s has inevitably squeezed the aid monies potentially available for developing countries. New fields of environmental endeavour in the 1990s have given rise to demands for "additionality" of aid flows to cover them. These demands, which have generally not been met, and debt forgiveness have emerged as a significant category of ODA over the

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last decade and a half. There has thus been increased pressure on ODA, which is forcing a downward readjustment of traditional bilateral aid expenditures.

Some G7 countries concentrate their aid much more than others. The United States, for instance, gave almost 40% of its aid to Egypt and Israel in 1991-92 whereas no recipient of Canadian aid received more than 4% of the total. France allocated most of its aid to countries of La francophonie, and the UK to those of the Commonwealth. ASEAN countries figured prominently among recipients of Japanese ODA. These tendencies were, however, subject to many exceptions. Egypt, for instance, was a major recipient of aid from almost every G7 country except the UK.

In the spring of 1993 the G7, led by US President Clinton, assembled a package of US\$43 billion to support overall reform in Russia. The Canadian portion of that assistance package was over \$US1 billion. Since then, however, the Russians have chosen to focus their own financial resources on domestic priorities in ways that overwhelm the effectiveness of international assistance.

In times of large deficits and shrinking resources, as in the immediate future, Canada and other developed countries may well see a continuation of these pressures on ODA. G7 countries will doubtless strive to preserve their commitments to multilateral ODA, given the value of these multilateral programs and the political linkages that lie behind them. Bilateral flows will therefore likely be the main targets of any reductions. Means must be found to improve the focus on environmental programs, population activities, and the alleviation of poverty, within available resources. One means of doing so would be to build on existing selectivity among G7 donors to achieve a higher level of coordination of bilateral ODA, both as to geographical destination and functional use. An

understanding among G7 countries could subsequently be generalized among other members of the Development Assistance Committee (DAC). The objectives of this coordination would be:

- to preserve programs to a wide range of countries;
- to give priority to environmentally significant programs;
- to elicit a high degree of participation from recipients; and
- to improve the commonalities among programs of G7 countries.

The allocation of ODA must be better coordinated among the major donors for improved quality and maximum efficiency, and to prevent simultaneous withdrawal of, or drastic reductions in, donor countries' contributions. This coordination must attempt to eliminate overlap and weak policies and practices as well as encourage better geographic balance. The World Bank should cooperate more directly with regional development banks and other international agencies to achieve this end. The environmental component of ODA should be reviewed and sustainable development made a priority. Official development assistance should be focussed on projects that private capital flows are not covering, notably health, population, the empowerment of women and aboriginal peoples, and environmental protection and enhancement. The G7 should propose that the appropriate body to coordinate this effort might be the OECD-DAC.

In order to meet the inevitable changes in the use of capital for development purposes, the G7 should welcome the innovative new funding provisions in the UN Convention on Desertification which encourage multiple source funding of projects (including private sector, foundation and domestic funds of developing countries), NGO

participation and better coordination amongst donors at the national levels.

Debt Relief

A leading area of Canadian and G7 success over the past decade has been the adoption of a cumulative set of practical and effective measures for relieving the debt burden, and thus enhancing the sustainable development prospects, of the poorest of the poor, above all in Africa. As the Commission on Global Governance recently noted, for many low income developing countries the 'debt crisis' is a "live and growing problem" that the G7 addressed with the 1988 "Toronto Terms" on debt reduction, the 1991 enlarged Toronto Terms (involving a 50% forgiveness of the present value of debt service payments) and, more recently, the "Trinidad Terms" (offering more concessional relief for some debtors). The need which inspired these early G7 actions continues and in many respects has been compounded by post-Cold War developments in Africa.

The Halifax Summit should provide a substantial practical response to alleviating the burden of debt, including debt to multilateral institutions, carried by the poorest countries, particularly in Africa. Such a response should be taken on the basis of a complete analysis, prepared by the G7 finance ministers and discussed by the leaders themselves, of which forms of past debt relief have worked and the reasons for the success of those measures which have been effective.

Military Spending Reductions

Specialists in international development have long known of the advantages which professional military establishments can bring to early stages of the development processes. They also know how large military establishments can divert scarce

resources from basic human needs and civilian infrastructure, and how the dominance of military calculations can encourage donors to channel ODA to countries on security rather than basic development grounds. For example, despite the recent moves toward peace in the Middle East, the US still devotes half of its aid budget to Israel and Egypt. Heavy military spending can also create insecurity on the part of neighbours, and generate conflicts that destroy much of the hard-won development that has been achieved. Even in peacetime, large military establishments perpetuate a tradition of closed, secret decision making that contradicts the sustainable development objectives of openness, transparency, and public participation, and diminishes respect for the environment.

National choices to maintain and expand military spending should lead to reduced aid flows (apart from cases where G7 foreign ministers can identify a legitimate security need). The heads of the G7 development agencies should meet to consider how best to define and introduce such incentives; how best to assist developing countries to move towards more environmentally sensitive military programs; and how a portion of the "peace dividend" enjoyed by G7 countries can be mobilized to support this effort.

The steady reduction of overall national military expenditures (apart from military programs for disaster relief, natural resource protection and environmental remediation) in developing countries should be acknowledged by greater resource flows from the international financial institutions, both in regular programs and in the creation of new support and adjustment programs, and in national development assistance and debt reduction programs. The IFIs should adjust their activities to create an incentive for such reductions.

4. The Challenge of Liberalizing Trade and Linking Environmental Considerations

Trade has been on the agenda at every G7 Summit since it began in 1975. The Uruguay Round of the GATT had been considered and encouraged through the Summit process through to its conclusion in late 1993. In 1994, at Naples, President Clinton indicated he might go to Halifax in 1995 with the initiative he introduced for "Open Markets 2000" aimed at global trade liberalization. This emphasis has been reinforced by his recent success at APEC and the Summit of the Americas, where he called for free trade among members and within the hemisphere by the years 2000 and 2005, respectively.

Adherents of sustainable development should welcome this increased trade liberalization because it is among the dominant factors that attract new capital inflows, increase prosperity, and allow resources to be directed toward development that might be more sustainable. However, these same adherents must be aware that increased growth through export-led trade liberalization could have serious ecological implications where environmental policies, laws and regulations, and resources for mechanisms to monitor and enforce, are relatively weak. Intensifying economic growth presents a significant threat to the global ecology if pursued without concern for environmental and social protection. At the same time, increasing interdependence presents opportunities to undertake the increased activity in more sustainable ways.

In the Naples communiqué, the G7 leaders stated: "We welcome the work on the relation between trade and environment in the new WTO." The G7 should naturally be concerned about the link between trade and environment. It provides an excellent forum for providing leadership on this issue as its members command a strong plurality

of global economic and environmental capabilities. Also, because it is small, it is able to make decisions and its leaders are able to reach agreement often faster than larger, more bureaucratic, institutions. From a Canadian perspective, it is an extremely useful forum for a number of reasons, on trade issues in particular. In the G7 the US represents a minority of capabilities and so the institution has an opportunity to exert effective control over attempts at American unilateralism.

The Uruguay Round of GATT negotiations has laid the framework for the next generation of trading relationships and set the stage to deal with new issues in the post-Uruguay Round era.

The Uruguay Round agreements that brought about the WTO included a concern for the ecological consequences of increased economic growth and trade.

In response to these concerns, the WTO created a Committee on Trade and Environment. The G7 should show leadership in securing the successful outcome for the Committee's work program in support of the timetable established by the WTO, to report on progress made on issues of trade and environment by December of 1996.

Leaders should consider whether a new trans-regional dialogue on some of the issues pertaining to the better management of the ecological aspects of increased trade (such as eco-labelling, packaging, and the effects of multilateral environmental agreements) could be helpful to the WTO in determining how to reconcile issues of trade and environment. This dialogue should include bodies such as the OECD, APEC, NAFTA, the EU, MERCOSUR, the Commonwealth, La francophonie and key members of the G15.

Canada should acknowledge the experiment and experience of the North American Commission on Environmental Cooperation and its value in

developing a forward-looking trade-environment regime, relying largely on systematic broad-based cooperation, but also on the need to enforce national environment legislation.

5. The Institutional Challenge for the Global Environment

Confusion and incoherence characterize the current management of international affairs, as a dozen different UN agencies, the secretariats to various environmental treaties and conventions, the World Bank, and countless national and international NGOs attempt to deal with the globalization of environmental problems. And when environmental issues overlap with and have an impact on economic concerns, there is no institution with the resources, power, or credibility in the international system to ensure that the environmental concerns are dealt with fairly. For example, there is no institutional international organization to protect environmental values the way the WTO protects the principles of free trade.

Since the Earth Summit in Rio, the need for global environmental issues — as well as sustainable development issues — to find an adequate institutional champion has arisen very clearly. The present structures in the UN and elsewhere are characterized by overlap, inefficiency and the difficulty of finding adequate priority setting mechanisms in a context where the recent UN Framework Convention on Climate Change, the UN Convention on Biodiversity, the UN Convention on the Law of the Sea and the UN Convention on Desertification exist among some 900 international treaties or international agreements on environment issues.

The G7 leaders should recognize the need for a modern and effective global institution with an environmental protection and enhancement mandate.

The G7 should call for the creation of a Task Force to review and make recommendations on current environment and development institutions, including questions of jurisdiction, overlap, coordination and efficiency as they pertain to UN agencies and others.

The Task force should also consider the following:

- How best to build on existing institutions, including, above all, how to significantly strengthen and upgrade UNEP so that it might be able to interrelate on a more equal and effective basis with the IMF, the World Bank and the WTO; and
- How such an institution could eventually work closely with the WTO to consider the environmental implications of trade.

The Task Force could be proposed by the environment ministers at Hamilton who could compile a list of the institutions to be examined. This process could be endorsed by the leaders at Halifax. The heads of the G7 development agencies should also be involved in this review. Such a Task Force should include members from countries beyond the G7.

The Global Commons

The G7 leaders should acknowledge the need for a new body within the UN system that would be accountable for the administration of the global commons (oceans, outer space and the Arctic) and should consider having a reformed UN Trusteeship Council play this role.

6. The Challenge of Current Global Environmental Issues

In December 1994, the First Conference of the Parties of the UN Biodiversity Convention was held in Nassau. In March 1995, the First Conference of

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the Parties of the UN Framework Convention on Climate Change will meet in Berlin. Both meetings were designed to assess progress toward the implementation of the two treaties which were signed at the Earth Summit in Rio in 1992. All of the G7 countries have signed, if not yet ratified, both agreements.

The leaders of the G7 should articulate a renewed sense of purpose regarding sustainable development and the commitments made at the Earth Summit in Rio de Janeiro.

The leaders at the G7 should take the lead in reviewing and reorienting the systems by which they motivate economic behaviour to create incentives for environmentally positive behaviour. This could include examining the design and implementation of economic instruments for the conservation of biological diversity.

The G7 countries have a commanding share of global energy consumption (46%), temperate forests (39%), industrial CO₂ emissions (38%), and primary energy production (37%). In the post-Rio era of global environmental cooperation, with these resources and thus responsibilities, the G7 is an important forum for generating action on critical issues and, in particular, climate change, where energy production, consumption, and CO₂ emissions are at the core, and where forests play an important role as carbon sinks.

The leaders of the G7 should reaffirm their support for the UN Framework Convention on Climate Change and rapidly move towards creating and implementing the national plans that it requires, including sharing with other countries ways and means to ensure that production is more energy efficient and non-polluting, with an emphasis on renewable forms of energy.

At their 1994 Naples Summit, the G7 leaders, in their discussion of climate change, also recognized "the need to develop steps for the post-2000

period." One area where they have a natural advantage in doing so is in pioneering energy-efficiency technologies for public and private transportation. At this critical stage there is a need for government support for the development of a host of pre-competitive technologies, so that a variety of paths toward producing the "clean car" of the future can be explored and the most economically and environmentally desirable, chosen. Given their shared commitment to control CO₂ emissions, and their status as the world's leading automobile producing countries, there is a need for coordinated G7-country attention in this area. At a minimum, G7 countries should ensure that the technical standards and regulatory incentives being introduced on a national level to develop environmentally friendly vehicles and fuel systems do not generate barriers to international trade that inhibit the development and diffusion of the best systems. They could further explore how internationally shared research on critical components could advance the process, and which of the new technologies, particularly in the public domain, could be shared on concessional terms with developing countries.

As one way to assist G7 countries meet their commitments for stabilization and reduction under the UN Framework Convention on Climate Change, the leaders should encourage representatives from the G7's national research councils, standard-setting bodies, and automotive industries to meet to consider the need for harmonized standard-setting and coordinated research and technology transfer in environmentally friendly vehicles.

Sarah Richardson is Foreign Policy Advisor at the National Round Table on the Environment and the Economy. John Kirton is an Associate Professor of Political Science at the University of Toronto.



Appendix A

Conference Agenda

The Halifax Summit, Sustainable Development and International Institutional Reform
Monday, February 27, 1995

9:00 - 9:20

Welcoming Remarks and Context

Pierre Marc Johnson
Vice-Chair, NRTEE

9:20 - 10:45

Setting the Stage: Canadian Government Perspectives

Canada and the Summit

Gordon Smith
*Deputy Minister and "sherpa"
Department of Foreign Affairs and
International Trade*

From Hamilton to Halifax

Mel Cappe
Deputy Minister, Environment Canada

10:45 - 11:00

Break

11:00 - 12:30

The Bretton Woods Pillars

The International Monetary Fund

Ved Gandhi
*Assistant Director, Fiscal Affairs Department,
IMF*

The World Bank

Len Good
Executive Director for Canada, World Bank

The World Trade Organization

Richard Eglin
*Director, Trade and Environment Division,
WTO*

12:30 - 1:45

Lunch

Post-Rio Sustainable Development and the Summit

The Honourable Maurice Strong
*Chair, Ontario Hydro
Member, NRTEE*

2:00 - 3:15

New International Institutions

A Global Environment Organization: The Fourth Bretton Woods Pillar?

Dan Esty
Yale University

UN Agencies and the OECD

Jim MacNeill
*Chairman, International Institute
for Sustainable Development*

3:15 - 3:30

Break

3:30 - 4:45

International Perspectives on the Halifax Summit

An American Perspective

David Hale
*Senior Vice-President and Chief Economist
Kemper Financial Companies Inc.*

A German Perspective

Rudolph Dolzer
Director General, Federal Chancellory

A Japanese Perspective

Masao Kawai
*Minister and Head of Chancery, Permanent
Mission of Japan to the UN*

4:45 - 5:15

General Discussion

5:15 - 5:30

The Next Steps

Pierre Marc Johnson

5:30 - 7:00

Reception

Appendix B

The Halifax Summit, Sustainable Development and International Institutional Reform
Monday, February 27, 1995

CONFERENCE PARTICIPANTS

Sally Arsove

Senior Economist
International Finance and
Development Division
Department of Finance Canada
L'Esplanade Laurier
14th Floor, East Tower
140 O'Connor Street
Ottawa, Ontario
K1A 0G5

Jean Boutet

Special Assistant
The Honourable Sheila Copps'
Office
Les Terrasses de la Chaudière
10 Wellington Street
28th Floor
Hull, Quebec
K1A 0H3

Mel Cappe

Deputy Minister
Environment Canada
Les Terrasses de la Chaudière
10 Wellington Street
28th Floor
Hull, Quebec
K1A 0H3

A.A. (Ed) Cayer

President
International Marine Biodiversity
Development Corporation
5 Lyngby Avenue
Dartmouth, Nova Scotia
B3A 3T5

Michael Cloghesy

Président
Centre patronal de l'environnement
du Québec
640 St. Paul Street West
Montreal, Quebec
H3C 1L9

Armand de Mestral

Professor,
Institute of Comparative Law
Faculty of Law
McGill University
3674 Peel Street
Montreal, Quebec
H3A 1W9

John Dillon

Senior Associate
Business Council on National Issues
Royal Bank Centre
90 Sparks Street, Suite 806
Ottawa, Ontario
K1P 5B4

Ronald Doering

Executive Director
National Round Table on the
Environment and the Economy
1 Nicholas Street, Suite 1500
Ottawa, Ontario
K1N 7B7

Rudolph Dolzer

Director General
Federal Chancellor
Adenauerallee 139 - 141
53113 Bonn - Germany

Wayne Dunn

Apikan Indigenous Network
154 Aylmer Avenue
Ottawa, Ontario
K1S 2Y4

Richard Eglin

Director, Trade and Environment
World Trade Organization
Centre William Rappard
Rue de Lausanne
154 CH-1211
Geneva, 21 Switzerland

Dan Esty

Yale Law School
P.O. Box 208215
127 Wall Street
New Haven, Connecticut 06520
USA

Craig Ferguson

Director, Multilateral Affairs
International Affairs Directorate
Corporate Policy, Environment
Canada
Les Terrasses de la Chaudière
10 Wellington Street
Hull, Quebec
K1A 0H3

Janine Ferretti

Director
North American Commission for
Environmental Cooperation
Secretariat
393 rue St-Jacques Ouest
Suite 200
Montreal, Quebec
H2Y 1N9

Liseanne Forand

Executive Director
Canadian Council of Ministers of the
Environment
326 Broadway, Suite 400
Winnipeg, Manitoba
R3C 0S5

Stephanie Foster

Special Assistant to the Chairman
Ontario Hydro
700 University Avenue
Toronto, Ontario
M5G 1X6

Hilary French

Senior Researcher
WorldWatch Institute
1776 Massachusetts Ave., NW
Washington, DC 20036
USA

Ved Gandhi

Assistant Director
Fiscal Affairs Department
International Monetary Fund
701 20th Street NW
Washington, DC 20431
USA

Jacques Gérin

President
Hatch Associates
5 Place Ville Marie
Suite 200
Montreal, Quebec
H3B 2G2

Laurette Glasgow

Director, International Economic Relations Division
Department of Foreign Affairs and International Trade
125 Sussex Drive
Ottawa, Ontario
K1A 0G2

Len Good

Executive Director for Canada
The World Bank
1818 H Street NW
Washington, DC 20433
USA

Laurie Gourlay

Vice-Chair, International Affairs Caucus, Canadian Environmental Network and Commons Consulting Cooperative
Box 175, Station A
Ottawa, Ontario
K1N 8V2

Brigita Gravitis

Director
International Affairs
Environment Canada
Les Terraces de la Chaudière
10 Wellington Street
Hull, Quebec
K1A 0H3

Gordon Greasley

Coordinator, Strategic Planning
Canadian Council of Ministers of the Environment
326 Broadway, Suite 400
Winnipeg, Manitoba
R3C 0S5

Yves Guérard

Président du conseil et Chef de la direction
Sobecco Ernst Young Inc.
505 René Levesque Boulevard
Ouest
Montreal, Quebec
H2Z 1Y7

Peter Hajnal

Faculty of Library Science
University of Toronto
c/o Robarts Library
130 St. George Street
Toronto, Ontario
M5S 1A5

David Hale

Senior Vice-President and Chief Economist
Kemper Financial Companies Inc.
Rt. 22
Long Grove IL, 60049
USA

Arthur Hanson

President
International Institute for Sustainable Development
161 Portage Avenue East
6th Floor
Winnipeg, Manitoba
R3B 0Y4

Jean Hennessey

Director
North American Commission for Environmental Cooperation
Secretariat
393 rue St-Jacques Ouest
Suite 200
Montreal, Quebec
H2Y 1N9

Susan Holtz

Environmental Policy Consultant
Stanbrae Road, Ferguson's Cove
Box 49, Site 15
R.R.#5
Armdale, Nova Scotia
B3L 4J5

Michèle Jodoin

Présidente, Conseil de relations internationales de Montréal (CORIM)
2580 rue St-Joseph Est
Montreal, Quebec
H1Y 2A2

Pierre Marc Johnson

Guy & Gilbert
770 Sherbrooke Street West
Suite 2300
Montreal, Quebec
H3A 1G1

Robert Johnstone

Toronto, Ontario

Masao Kawai

Minister and Head of Chancery
Permanent Mission of Japan to the United Nations
866 United Nations Plaza, 2nd Floor
New York, New York 10017
USA

John Kirton

Department of Political Science
University of Toronto
100 St. George Street
Toronto, Ontario
M5S 1A1

Ella Kokostis

Box 282
Bracebridge, Ontario
P1L 1S2

Louise Laliberté

Foreign Policy Analyst
National Caucus Liberal Research Bureau
180 Wellington Street
Room 320
Ottawa, Ontario
K1A 0A6

Soe Lin

Director, Development Economics Policy Division,
Policy Branch, CIDA
200 Promenade du Portage
Hull, Quebec
K1A 0G4

Marjorie Loveys

Policy Advisor, Economic Development
Policy and Research
Prime Minister's Office
Langevin Block
80 Wellington Street
Ottawa, Ontario
K1A 0A2

The Honourable David MacDonald

66 Marlborough Avenue
Ottawa, Ontario
K1N 8E9

Jim MacNeill

Chairman
International Institute for Sustainable Development
161 Portage Avenue East
6th Floor
Winnipeg, Manitoba
R3B 0Y4

Blaine Marchand

*Director of Communications
Friends of the Earth
701-251 Laurier Avenue West
Ottawa, Ontario
K1P 5G6*

Frances McRae

*Advisor, Intergovernmental Affairs
Directorate
Corporate Policy Group
Environment Canada
Les Terrasses de la Chaudière
10 Wellington Street, 5th Floor
Hull, Quebec
K1A 0H3*

Harvey Mead

*Président, Union québécoise pour
la conservation de la nature
2728 rue De L'Anse
Ste-Foy, Québec
G1W 2G5*

Karen Morgan

*President, Woodnorth Holdings
94 Woodland Drive
Delta, British Columbia
V4L 2C1*

Robert Page

*Dean, Faculty of Environmental
Design
Room 1002-ES, Earth Science
University of Calgary
2500 University Drive, NW
Calgary, Alberta
T2N 1N4*

Paul Painchaud

*Groupe d'études et de recherches
sur les politiques environnementales
(GERPE)
Laval University
Jean-Durand Building
Faculty of Social Science
Cité universitaire
Quebec City, Quebec
G1K 7P4*

Caroline Pestieau

*Director General, Social Sciences
Division
International Development Research
Centre
250 Albert Street
Ottawa, Ontario
K1G 3H9*

Steve Pomper

*Director, Environment
Alcan Aluminium Limited
1188 Sherbrooke Street West
Montreal, Quebec
H3A 3G2*

Sarah Richardson

*Foreign Policy Advisor
National Round Table on
the Environment and the Economy
1 Nicholas Street, Suite 1500
Ottawa, Ontario
K1N 7B7*

François Rioux

*Assistant Deputy Minister
Intergovernmental Cooperation
Intergovernmental Affairs, New
Brunswick
670 King Street, Suite 274
Fredericton, New Brunswick
E3B 5H1*

Robin Round

*Sierra Club
1 Nicholas Street, Suite 620
Ottawa, Ontario
K1N 7B7*

Dana Silk

*Policy Advisor, Projet de société
National Round Table on
the Environment and the Economy
1 Nicholas Street, Suite 1500
Ottawa, Ontario
K1N 7B7*

Robert Slater

*Assistant Deputy Minister
Environment Canada
Place Vincent Massey
351 St-Joseph Blvd.
18th Floor
Hull, Quebec
K1A 0H3*

Gordon Smith

*Deputy Minister
Department of Foreign Affairs and
International Trade
125 Sussex Drive
Ottawa, Ontario
K1A 0G2*

Dahlia Stein

*National Planning Association
1424 16th Street, N
Suite 700
Washington, DC 20036
USA*

The Honourable Maurice Strong

*Chair, Ontario Hydro
700 University Avenue
Toronto, Ontario
M5G 1X6*

Urs Thomas

*6307 rue Beaulieu
Montreal, Quebec
H4E 3E9*

Marc Uzan

*Executive Director
The Reinventing Bretton Woods
Committee
Seven Park Avenue, Suite 101
New York, New York 10016
USA*

Gilbert Winham

*Eric Dennis Memorial Professor of
Government and Political Science
Department of Political Science
Dalhousie University
Halifax, Nova Scotia
B3H 4H6*

Al Wood

*International Institutions
World Wildlife Fund
1250 - 24th Street, NW
Washington, DC 20037
USA*

Appendix C

Keeping Sustainable Development Commitments: The Recent G7 Record

Ella Kokostis¹

Introduction

Since their inception in 1975, the annual Summit meetings of the leaders of the major industrialized democracies have become a "highly publicized fixture in international diplomacy." (Watt, 1984; 3) As the only regular gathering of the political leaders of the seven leading industrial countries — Canada, France, Germany, Italy, Japan, the United Kingdom, the United States, together with the European Union and now Russia — the Summits have naturally attracted much international attention, and likewise aroused expectations. The Summits have been praised by many scholars, bureaucrats and journalists as an effective forum for greater policy coordination. But they have also invited considerable and continuing criticism. Some contend that the "scale of the G7 Summits has been seen to be disproportionate with the results" and have thus questioned "whether summits can produce concrete decisions and actions" (Background Information, 1994; 22). The Summit process has been attacked as an excessively costly exercise, often concerned more with ceremony than with substance. As a result, a great deal of scepticism has loomed concerning the overall accomplishments of these annual meetings, especially once the leaders produce their communiqué-encoded collective agreements, and return to normal politics back home.

Advocates and supporters of the Summit process view these communiqués, or declarations, as documents that do, in fact, have an important impact in altering subsequent behaviour. There are others, however, who contend that the final communiqués are intentionally left vague, are largely rhetorical, and impose imprecise obligations. Moreover, even when precise results and far-reaching agreements are secured, there is much doubt about whether they are kept when the leaders return home to their respective national bureaucracies, agendas and interest groups.

Thus, scholars, bureaucrats and journalists remain deeply divided on the question of the Summit's overall credibility. Yet there exists very little empirical work on the actual record of *compliance*, or the extent to which Summit members subsequently comply with the agreements reached at the Summit table.

The one major study of Summit compliance, dealing with the Summit's economic and energy agenda from 1975 to 1989, finds that compliance varies widely by country and issue area. (Von Furstenberg and Daniels, 1992) Britain and Canada have the highest compliance record, and France and the United States, the lowest. Moreover, the authors conclude that "the degree to which commitments in the area of energy have been lived up to in the past stands out from commitments in all other areas", while compliance with trade commitments is also strong; development issues reside in the middle range. Given this variation by country and issue area, a detailed examination of the G7's recent compliance record in the fields of environment and development areas is required to identify what sustainable development initiatives, supported by what countries, will produce durable progress at Halifax and beyond.

This paper will thus address the following questions:

- I. What specific, future-oriented commitments were made on environment and development issues at the most recent post-UNCED (United Nations Conference on Environment and Development) Summits: Munich (1992), Tokyo (1993), Naples (1994)? At a minimum, one could expect the heads at Halifax to agree to keep the sustainable development commitments they have already made.

¹ Ella Kokostis is a Ph.D. student in the Department of Political Science at the University of Toronto. This paper was originally prepared for the NRTEE workshop, The Halifax Summit, Sustainable Development, and International Institutional Reform, held on Monday, February 27, 1995, in Montreal. The views expressed in this paper are those of the author and do not necessarily reflect the views of the Task Force on Foreign Policy and Sustainability, the NRTEE, or the Government of Canada.

- II. To what extent, and how rapidly, has each of these commitments been kept? Areas where there has been the longest commitment but the least performance might be particularly ripe for action.
- III. How does Canada's record of compliance compare with that of each of the other Summit members? As Summit host, Canada might wish to highlight those areas where its claim to leadership is real.
- IV. What causes a high degree of compliance with G7 environment and development commitments? By understanding the conditions that facilitate compliance action, one can further identify which issues are ripe for forward movement at Halifax.

Munich Summit, 1992

Environment

As the Munich commitments indicate (see Annex B), a new era in environmental diplomacy began with the conclusion of UNCED in June of 1992. Meeting in Munich one month later, the G7 leaders stressed the importance and urgency of carrying forward the momentum of UNCED. In fact, the final communiqué emphasized a number of immediate measures to follow up the agreements and conventions reached at Rio.

With respect to global warming, the Munich communiqué committed all G7 members to ratifying the *Climate Change Convention* by the end of 1993. The Convention was signed by 154 countries (including all G7 members) during the Earth Summit. Canada signed the Climate Change Convention at Rio and was the first of the G7 to ratify the Convention on December 4, 1992. Although the Munich communiqué did not make the same commitment regarding the Biodiversity Convention — due to American reservations about the treaty — Canada signed and ratified the Biodiversity Convention on December 4, 1992, and urged other countries to sign and ratify the convention as promptly as possible (*Reporting Telex, Final Canadian Reports, 1992*).

The Munich communiqué also called on all countries to prepare and publish *national action plans* for the environment by the end of 1993. This objective was in fact achieved by Canada in 1990, with the government's launch of the *Green Plan* — Canada's national blueprint for implementing environment and sustainable development initiatives. It was anticipated that Canada's *Green Plan* would assist developing countries in drafting their own national sustainable development strategies in an effort to assist the process of implementing the Rio conventions (*Reporting Telex, Final Canadian Reports, 1992*). Since 1991, however, the *Green Plan* "has suffered a series of financial setbacks as a result of government fiscal restraint." In an effort to reduce costs, the government indicated that it would stretch the *Green Plan's* CDN\$3 billion budget over a period of six years, rather than the anticipated five-year term, thereby saving CDN\$600 million. Moreover, in December 1992, Finance Minister Don Mazankowski announced that funding for the Plan would be further reduced by 10%. Such measures began to signify that the *Green Plan* could "be prevented from developing into a full-fledged implementation of sustainable development" (Jeffrey, 1994; 32-34).

The Munich communiqué also confirmed the G7's goal of establishing the Global Environment Facility (GEF) as a permanent funding mechanism. This would require addressing the issue of financing a GEF replenishment — "a prospect raised explicitly by Major, Kohl and Mitterrand" at the Summit (*Reporting Telex, Final Canadian Reports, 1992*). Canada endorsed the establishment of the GEF in 1991, and in 1992, Canada fulfilled its Summit commitment by contributing CDN\$25 million to the fund. Canada sponsored the GEF's first meeting in October 1992, and in addition, pledged to contribute more financial resources in an effort to establish the facility as a permanent funding institution.

The Munich communiqué further called for the establishment by the 1992 United Nations General Assembly of the Commission on Sustainable Development (CSD), which would play a pivotal role in monitoring the implementation of Agenda 21. Recognizing that unless such a Commission were established, many pledges made at Rio would fall victim to "displaced priorities", the Canadian government "gave the strongest possible endorsement to proposals for the establishment of the Sustainable Development Commission" (Buxton, 1992; 794). In compliance

with the Munich communiqué, the CSD was established at the autumn 1992 session of the United Nations General Assembly and met for the first time from June 14 to 25, 1993, at UN headquarters in New York (*Global Agenda*, Spring 1993).

With respect to other G7 countries, Germany was considered the Earth Summit's leading power. In Rio, Bonn boasted that "it had resolved to implement the tightest program on the reduction of carbon dioxide emissions," promising to reduce greenhouse gas emissions to 5% below 1990 levels by the year 2000. Although the Munich communiqué urged all G7 members to "draw up and publish national action plans, as foreseen at UNCED, by the end of 1993," Germany had fulfilled this commitment by producing its *National Report on Environmental Protection in Germany* in June 1992. Japanese Prime Minister Miyazawa also stated that he would attempt to reduce Japanese carbon dioxide emissions to 1990 levels by the year 2000, and further stated that by 1996 Japan would terminate the use of CFCs.

With regard to the more substantive environmental commitments made in the Munich communiqué — i.e., those that can be measured with reasonable precision — the Summit members scored relatively well. Two of the most pressing issues on the agenda — the creation of the Commission on Sustainable Development and the extension of the Global Environment Facility — were both promptly adopted by the members following the Munich Summit. Although not all members ratified the Climate Change Convention immediately following the Summit, Canada became the first of the G7 to ratify the Convention in December 1992.

Development

The communiqué issued at Munich called on the G7 to provide for additional support to developing countries, particularly by replenishment of IDA, as well as actions of global benefit through the GEF. Following from this, Canada agreed to join other donor countries in making more money available for sustainable development projects. Canada fulfilled its Summit commitment by contributing CDN\$830 million to IDA, with promises to contribute to its next replenishment (Buxton, 1992; 791).

The communiqué welcomed the enhanced debt relief extended to the poorest countries, and attached great importance to the enhanced use of voluntary debt conversion, including debt conversions for environmental initiatives. In response to this pledge, Canada offered to erase the CDN\$145 million owed to it by ten Latin American nations, provided that they spend equal amounts on their rain forests and other environmental activities. Under this arrangement, "Canada, through CIDA, would convert this amount to local currency to fund environmental and sustainable development projects" (Buxton, 1992; 792).

Moreover, in its efforts to begin the implementation of the conventions signed at the Earth Summit and reiterated in the Munich communiqué, Canada agreed to contribute CDN\$2 million to UNDP in funding projects in Third World countries to plan their own sustainable development programs. In addition, Canada contributed CDN\$115 million to the International Development Research Centre (IDRC) so that it may broaden its mandate in the area of sustainable development.

In line with the communiqué's commitment to "increase the quantity and quality of official development assistance," Prime Minister Mulroney reiterated his Rio promise to raise Canada's foreign aid from 0.45% of GNP — the second highest among the G7 (behind France) — to 0.7% by the year 2000. Canada would have to thus double its spending on foreign aid to meet the year-2000 target.

Among other G7 countries, Germany indicated that development assistance would be increased by US\$635 million between 1993 and 1995. With respect to the 0.7% target for development assistance, however, Germany was reluctant to commit itself, arguing that it was facing fiscal constraints (*German Tribune*, May 29, 1992). France and Italy were keen on making a binding commitment to spend 0.7% of GNP on development assistance by the year 2000. French President Francois Mitterrand agreed that the French government would increase development assistance from the 1992 level of 0.56% (the highest among the G7), to the target rate of 0.7%. Similar to Germany, Britain offered to provide between US\$215-320 million in development assistance to the less-developed

countries, but argued that it would be difficult to commit itself to the 0.7% target due to economic obstacles. The European Community pledged US\$4 billion to further these commitments (*Ottawa Citizen*, June 14, 1992).

Japan's overall financial contribution to the Earth Summit was approximately US\$9 billion, the largest among the G7 countries. At the time of the Earth Summit, Japan's contribution to development assistance amounted to 0.3% of GNP. In Rio, and again following the Munich Summit, however, Prime Minister Miyazawa committed Japan to increasing its development assistance to 0.7%, but without agreeing to a specified target date.

Development commitments made at the Munich Summit appear to be more difficult to quantify, based on the vague and unexplicit terminology adopted in the communiqué. Although committing to increasing the quality and quantity of aid to the less developed countries (LDC), there were no definable monetary goals set by the leaders in the declaration. Although the G7 made substantial monetary contributions to the replenishment of IDA, and agreed to terms for voluntary debt conversions, Germany and the United Kingdom did not recommit themselves to increasing the level of ODA to 0.7% of GNP. Canada committed itself to reaching the 0.7% target for ODA, made significant contributions to IDA and, in addition, extended debt relief to the poorest countries in Latin America.

Tokyo Summit, 1993

Environment

The leaders emphasized in Tokyo that the environment remained a high priority on their policy agenda despite enduring economic constraints. The leaders welcomed the successful first meeting of the CSD and the progress made towards implementation and ratification of the Framework Convention on Climate Change and the Biodiversity Convention.

One of the new items in the Tokyo communiqué was the leaders' desire to push forward negotiations for a convention on desertification. The United Nations Environment Programme (UNEP) estimated in 1991 that six million hectares was lost annually due to desertification, "affecting the livelihood of more than 900 million people in 100 countries." Moreover, UNEP estimated that the cost of "preventive, corrective and rehabilitative antidesertification measures" lay somewhere between US\$10-22 billion per year. Despite these statistics, however, no formal negotiation for a convention on desertification was attained by the G7 member states immediately following the Tokyo Summit (IDRC, Sept. 1994; 5, 11). One of the key reasons for the reluctance to negotiate such a convention was the fact that some states argued that desertification was not a global problem, but a regional one (*Japan Times*, Sept. 28, 1994). However, in June 1994 — just days prior to the Naples Summit — a Convention to Combat Desertification was adopted in Paris (*NIKKEI*, June 30, 1994). Although not signed by the member states at the time of the Naples Summit, the adoption of the convention indicated that the G7 — among other convention participants — were in the process of taking serious steps to deal with this issue.

The Tokyo communiqué once again emphasized the leaders' determination to publish environmental national action plans by the end of 1993. In response to this, the Canadian government released, in September 1993, a first draft National Report on the implementation of the Climate Change Convention, with a final report due for release following a period of public input. According to *Department of Finance Estimates*, the government spent CDN\$1.105 million on global warming initiatives in 1992-1993 (*Dept. of Finance Estimates*, Environment, 1994-95; 112).

Unlike Munich, the Tokyo communiqué pushed for the implementation and ratification of the Biodiversity Convention, which Canada had ratified in December 1992. In 1992-93, Environment Canada established the Biodiversity Convention Office "to lead the development of a Canadian Biodiversity Strategy" along with federal departments, the provinces and territories, industry and conservation groups. A draft strategy was completed for public comment in April 1994, with the final document due for public release in November 1994 (*Dept. of Finance Estimates*, Environment, 1994-1995; 112).

The Tokyo declaration further stated that the G7 countries would work to ensure that the GEF functions as the financial mechanism to provide funding for the costs of implementing the global environment conventions signed at Rio. The GEF continued to provide grants in 1993 to cover the additional costs of investing in efforts to protect the global environment. As stated, Canada's original contribution to the GEF's launch in 1991 had been CDN\$25 million. In March 1994, Canada committed itself to replenish 4.28% of the global total (\$2 billion), over a period of three years; a figure amounting to CDN\$111.11 million (IDRC, 1994; 23).

Stressed in the Tokyo declaration was the leaders' desire to seek appropriate internationally agreed arrangements on the management, conservation and sustainable development of forests. Following the Summit, Canada proposed the creation of up to ten forest sites to serve as demonstration projects and working models for sustainable forestry development. Moreover, Canada committed to assist in "establishing international model forest projects in other countries over the next four years, to support international efforts to achieve sustainable forestry practices" (*Canada's Green Plan: The Second Year*, 1993). Canadian successes in forest projects overall, however, should not be overstated. According to a Government of Canada report, "harvesting rates continue to exceed regeneration by over 2 million hectares." According to one environmentalist, "in forest practices we're no closer to sustainability than we were 10 years ago" (Miller, 1994; 13).

Based on available evidence, it appears that compliance to environmental commitments by the G7 following the Tokyo Summit rates satisfactory. Commitments to continue the CSD and GEF were fulfilled, as was the commitment to adopt a negotiation on the convention on desertification. The Biodiversity Convention was ratified by all G7 members, with the exception of the United States. Finally, by the end of 1993, the majority of the G7 had adopted national action plans as a basis for their guidelines to fulfil their UNCED commitments.

Development

With respect to developing countries, the leaders in Tokyo pledged to pursue a comprehensive approach to aid, trade, investment and debt strategy. However, a report released by non-governmental development agencies analyzing foreign aid around the world found a "widespread decline in aid budgets and an increasing diversion of aid from long-term development projects to short-term emergency relief" (*Globe and Mail*, July 10, 1993). Although UNCED had proposed a target of 0.7% of GNP for development assistance, by the time of the Tokyo Summit, none of the G7 countries had attained this goal. In fact, the United Kingdom, Japan, Italy and the United States all reported development assistance levels less than one half of the UN target (see appendix C). Although Canada ranked second to France among the G7 countries in its aid budget (0.45%), Canada's ODA to developing countries was cut by CDN\$44 million in 1992-1993, and by CDN\$225 million in 1993-1994. It is estimated that ODA will be cut by an additional CDN\$262 million in 1994-1995. Despite these financial constraints, however, the Department of Finance stated in its 1994-1995 Estimates that Canada remained committed to achieving the ratio target of 0.7% of GNP for ODA.

In line with the communiqué's stated commitment to continue reviewing the question of debt relief, the G7 called for an increase in the rate of debt cancellation for the poorest developing countries. With respect to this Summit initiative, CIDA signed agreements with El Salvador, Honduras, Nicaragua and Colombia involving the conversion of CDN\$77.6 million of outstanding ODA debt (*Dept. of Finance Estimates*, ODA, 1994-95; 30).

The communiqué also supported the renewal of the Enhanced Structural Adjustment Facility (ESAF) — a loan program to 78 low-income developing countries "that pledge to implement macroeconomic adjustment and structural adjustment programs" (*NIKKEI*, June 25, 1994). In response to the Summit's emphasis on the renewal of the ESAF, the IMF increased the quota of loans by 5 billion SDRs (1 SDR = US\$1.47) to 10.1 billion SDRs in December 1993 (*NIKKEI*, October 5, 1994).

Although most G7 members reduced their aid to developing countries during 1993 due to "aid fatigue," Japan, the world's largest donor nation, was the only G7 member to increase its ODA disbursements — by 0.97% — in 1993, to an amount totalling US\$11.2 billion. Overall, the industrial nations (OECD-DAC) saw their official development

assistance decline from US\$60.8 billion in 1992 to US\$54.8 billion from 1993; a reduction of 11% from the year before (*NIKKEI*, June 25, 1994; June 29, 1994).

Similar to Munich, the Tokyo communiqué made very few tangible development commitments. Apart from the leader's endorsement for the continuation of the ESAF, and their support for debt relief for the poorest countries, the communiqué set no firm targets or goals for development assistance. Rather, the leaders stated that they would "make all efforts to enhance development assistance" — a commitment which in fact failed due to fiscal restraints and budgetary reductions. In the year following the Tokyo Summit, Japan remained the only G7 country to increase its ODA disbursements.

Naples Summit, 1994

Environment

The Naples communiqué made considerably fewer and less-tangible commitments with regard to environment and development issues. Apart from the leader's endorsement of the continuation of the CSD and the replenishment of the GEF, the communiqué addressed the issue of the Desertification Convention. On October 14, Canada joined its G7 members — along with 80 other countries — in signing the UN Convention on Desertification in Paris. Canada pledged to contribute CDN\$100 million over the next five years towards the global effort to fight desertification (*Canadian News Facts*, October 1–15, 1994).

The Naples communiqué also stated the leaders' determination to speed up the implementation of national plans for the Rio Climate Treaty. Following Rio, the G7 promised to decrease greenhouse gas emissions to 1990 levels by the year 2000. However, a report issued in September 1994 by the secretariat for the Framework Convention on Climate Change stated that CO₂ emissions by Japan and the United States in 2000 would be higher by 2.3% and 3.0% respectively, over 1990 levels if current trends continue. Emissions by Canada are expected to increase by 10.6% over the 1990 levels by the year 2000, Germany's emissions are expected to decrease by 5.0% from 1990 levels, and the United Kingdom's emissions are expected to decrease to 1990 levels (*NIKKEI*, December 16, 1994).

Further to the communiqué's objective of encouraging additional progress on the Rio conventions, Canadian finance and energy ministers met in Bathurst, New Brunswick on November 8, 1994, to outline over 80 options from which a national action program for stabilizing greenhouse gas emissions would be assembled. The program outlined options for economic development, technical innovation and alternative energy sources that would provide a framework for reducing greenhouse gas emissions to 1990 levels by the year 2000. Provincial ministers indicated, however, that they could not accept the plan unless they had cabinet approval and unless they assessed the plan's economic impact. Most, but not all ministers felt that regulatory options were required as well as voluntary ones. The ministers directed their officials to complete an economic analysis of the available options and recommended that the plan be released by February 1995. Thus, Canada expects to table the plan at a first signatories' conference on the Framework Convention on Climate Change scheduled for Berlin in March 1995 (*Envirogram*, December 1994). By preparing the National Action Plan for March, Canada will have fulfilled the Summit commitment urging the G7 to report on what they have achieved by the Halifax Summit.

With respect to other G7 members, neither France nor Italy have provided national action plans to date. Germany, Japan and the United Kingdom have provided such plans and are expecting to table them at the Halifax Summit (Interview, Environment Canada, December 16, 1994).

The Naples communiqué stressed that the G7 would work towards the implementation of the Biodiversity Convention. In response to this commitment, the first session of the Biodiversity Conference was held in Nassau in December 1994. Although no written reports or new protocols were tabled, conference members were able to establish a permanent secretariat and agree on dates for future meetings. According to an Environment Canada official, the conference provided "a successful first step for the implementation of the convention" (Interview, Environment Canada, December 16, 1994).

The Naples declaration also welcomed the restructuring and the replenishment of the GEF, and supported its choice as the permanent financial mechanism of the Rio conventions. Following the Earth Summit, UN officials had hoped that US\$8 billion would be pledged to the GEF for sustainable development. At the most recent GEF meeting in Cartagena, however, donors — including all G7 countries — agreed to commit US\$2 billion to the fund — one third less than expected. The Canadian contribution to the GEF for 1994 was CDN\$8.1 million, with CDN\$5 million sourced from ODA and CDN\$3.1 million from the *Green Plan*. Not only was there substantially less money provided to the GEF than anticipated by the UN, but there was also disagreement on how to supervise the money. Major industrial countries, such as Canada, for example, called for their control of the GEF's governing body, which determines where and how the money is to be allocated. Developing countries, on the other hand, argued that they should be apportioned a greater voice in how the funds are to be dispersed (Department of Finance Estimates, ODA, 1994-95; 28).

The G7 stated at Naples that the environment remained "a top priority for international cooperation." With only eight months gone by since Naples, firm conclusions with respect to these initiatives can not yet be accurately assessed. Based on available evidence to date, however, the record appears to be mixed. Progress has been made on the implementation of national action plans for climate change, as well as with the conventions on biodiversity and desertification. The G7 have partially fulfilled their commitment to replenish the GEF, although disbursements to the fund are much below expected levels. Although the heads have pledged to reduce greenhouse gas emissions to 1990 levels by the year 2000, early indicators suggest that not all G7 countries will be able to meet this target.

Development

With respect to the communiqué's statement on developing countries, the leaders agreed to continue their efforts to enhance development assistance as well as promote trade and investment in developing countries. At a finance ministers meeting in Madrid in October 1994, however, the leaders of the G7 rejected a US\$52 billion plan proposed by IMF managing director Michel Camdessus to create new funds for development assistance. The industrial countries stated that they would agree to contribute no more than US\$23 billion in aid, and "insisted that it all be allocated in a way that favoured the former Communist world and the poorest nations." Japan's contribution, the largest among the G7, was valued at 2.15 billion SDRs, or US\$3.1 billion (*NIKKEI*, October 5, 1994). In response to the proposal, the G7 argued that the IMF's request for US\$52 billion "risked stroking global inflationary fires" (*New York Times*, October 3, 1994).

With respect to Canada, the February 22, 1994, budget stated that the resources of the International Assistance Envelope would be reduced by 2% in 1994-1995 — an amount totalling CDN\$262 million. In addition, Finance Minister Paul Martin stated that the budget would include a freeze on aid spending for another two years. The cuts took Canada to 4.0% of GNP. Despite these figures, however, the Canadian government continues to pledge to meet the UN target of 0.7% of GNP for official development assistance.

Similar to the environment, development commitments made at Naples were significantly fewer and less tangible than those from previous years. Although promising to "enhance development assistance" in LDCs, aid packages from all G7 countries declined significantly from 1992 to 1993, as none of the G7 have been able to reach the 0.7% target of GNP for ODA.

Assessment

The above discussion has focussed on the extent to which commitments made at the recent Summits about environment and sustainable development issues have actually been complied with. Based on available evidence, the analysis indicates that, overall, environment commitments seem to have been fulfilled to a larger degree than development commitments; the Munich Summit was the most successful of the three Summits assessed with respect to compliance in these two issue areas; and similar to the conclusions by Von Furstenberg and Daniels, Canada has ranked high among its G7 partners in fulfilling its Summit commitments. This final section attempts to

assess why the Summit has been more successful in securing compliance in some environment and sustainable development areas rather than others.

Theories of compliance to international agreements have often linked the size of the country — measured by relative size of GNP — to a particular country's performance, suggesting that larger powers are less subject to international institutional constraints and exercise the option of non-compliance more often. If we use relative size of GDP as a measure of a country's performance, this would rank the United States first among the G7 countries — followed by Japan, Germany, France, the United Kingdom, Italy and Canada. In the case of the Biodiversity Convention, although the United States signed the Tokyo communiqué — which pledged all G7 leaders to both sign and ratify the convention — President Bush refused to sign the treaty, claiming that it threatened important American interests. Two years following the signing of the convention by the other G7 countries, President Clinton finally signed the treaty in September 1994, and is currently pushing for its ratification. In contrast, Canada, ranked seventh among the industrial countries with respect to relative size of GDP, took the lead on the Biodiversity Convention, and became the first of the G7 to ratify the convention in December 1992. In this area at least, overall (economic) size does not seem to affect the degree of compliance.

If we consider the environment and development commitments made in the most recent communiqués, several conclusions can be drawn with respect to *why* some areas are complied with more than others. First, it appears that commitments that specify the use of government policy instruments are more likely to be fulfilled than commitments "that are more dependent on economic processing and macroeconomic interaction with the private sector" (Ibid., 295). Simply stated, the G7 are more likely to comply with commitments involving direct policy measures than with commitments requiring national government monetary disbursements. The Summit members appeared more likely to readily fulfil commitments involving direct policy measures such as the signing of the Rio Conventions, the establishment of the Commission on Sustainable Development, the launch of the Brazil Pilot Project and the publication of national action plans. Issues involving economic processing, however, such as the replenishment of the GEF, increased financial support to less developed countries through ODA, and debt rescheduling appear to be fulfilled to a lesser degree. This is not to suggest, however, that these commitments were disregarded completely; rather, it suggests that the G7 have displayed reluctance to fulfil these commitments in their entirety. The case of ODA illustrates this point. Although the G7 continue to contribute to the replenishment of IDA, all seven countries have been unable to meet the UN target of 0.7% of GNP. Moreover, pledges in the last three communiqués to increase financial and technical support to less developed countries have not been fulfilled. In 1994 alone, total foreign aid spending fell in the industrialized world to US\$54.8 billion from US\$60.8 billion the year before (*Globe and Mail*, October 6, 1994).

More generally, compliance with Summit commitments in the environment and sustainable development fields may also be affected by domestic politics. A government may be more likely to take into consideration the concerns and interests of pressure groups and NGOs, particularly prior to election time. For example, although President Bush showed clear signs of being less "environmentally friendly" than other G7 members, he nonetheless signed the Munich communiqué, recognizing that he could potentially mobilize more voters for the November election by "turning a shade greener."

Canada has traditionally demonstrated constructive leadership on international environmental policy, and, in recent years, has become more widely recognized in the international community as a proponent of sustainable development. According to an Environment Canada official, Canada's interest in the environment is two-fold. First, Canada is endowed with a wealth of natural resources. As a country with an abundance of natural wildlife, forests and the world's longest coastline, Canadians have traditionally felt that they share a very special relationship with the environment. Along with the United States, Canada has the largest reserves of biodiversity among the G7 members. Thus, issues such as the loss of biodiversity and deforestation seem to strike a particularly powerful chord with Canadians.

Second, Canada has long demonstrated a sense of benevolence in environmental issues, beginning with the 1972 Stockholm Conference on the Human Environment, its later support for the development of the United Nations Environment Program, and its endorsement of the 1987 Brundtland Commission. As a co-sponsor of the original resolution calling for UNCED, Canada "played a prominent part in the preparation of Agenda 21 and in

negotiations for conventions on biodiversity and climate change and a statement of forest principles" (Buxton, 1992; 776; Interview, Environment Canada, January 13, 1994).

Canada's approach to international environmental policy over the past decade has demonstrated the government's "orientation towards seeking a consensus rather than acting unilaterally" (Cooper and Fritz, 1992; 804). The government has been willing to sign on and implement environment and sustainable development initiatives within the multilateral arena in an effort to forge a consensus among the potential signatories. This was demonstrated by the Prime Minister's lead in signing the Convention on Biodiversity and in joining other G7 countries in pushing for the convention's ratification.

More recently, however, higher expectations on issues dealing with the environment and development have led to a general lack of satisfaction with respect to the government's performance. Budgetary reductions over the last few years have undoubtedly affected the degree to which the government has been able to reliably implement its environmental commitments. Canada, along with its G7 partners, has made significant budgetary cutbacks in all governmental departments, including the environment and development assistance. Moreover, environment and development issues appear to have become subordinated to concerns over jobs and economic growth as a public and government priority. The recent Naples Summit serves to confirm this point. Compared to other Summits — i.e., Munich, 1992 — the final communiqué made few substantive commitments to issues concerning the environment and development assistance. Although these issues were certainly mentioned in the communiqué, jobs, growth and trade took precedence and received more tangible commitments. Indeed, the Canadian Background Report to the Naples Summit — which traditionally dedicates an entire section to the environment — mentioned it only briefly within its introductory paragraph.

Apart from economic constraints which seem to impair the ability of all G7 members to fulfill their environment and development commitments, other factors affect compliance with Summit declarations. In Canada's case, for example, Ottawa cannot act unilaterally on environmental issues; it also needs the cooperation and support of the provinces, which are largely responsible for environmental matters. At the recent energy and environmental ministers' meeting in Bathurst, N.B., the provinces and territories considered more than 80 options to reduce CO₂ emissions that cause global warming. Although Alberta signed the agreement to consider cutting greenhouse-gas emissions, "it made it clear it will not impose tough regulations on industry or the public." Although Alberta produces 26% of Canada's carbon emissions, Alberta's economic reliance on fossil fuels means that the province may be less willing to implement national policies aimed at decreasing greenhouse-gas emissions (*Canadian News Facts*, November 1–15, 1994). Provinces that are less economically dependent on such fuels, however, may be more willing to implement regulatory policies aimed at curbing the effects of global warming.

With respect to the Summit communiqués, "compliance" may be a hard-edged word for what are often soft and diffuse obligations. The fact that commitments made in the communiqués are often unexplicitly stated and impose imprecise obligations, lead some to conclude that Summit communiqués should not be read as instruments imposing binding obligations. However, as the only regular global gathering of the leaders of the seven most industrial countries in the world, the commitments made in the final declarations "are compelling because they are so final. There is no higher collective authority to whom a decision at the summit can be appealed — until the summit itself convenes again in another year's time." Moreover, "the collection of topics that the summit addresses each year is a uniquely comprehensive, precise and meaningful synthesis of the preoccupations, priorities and emerging problems in the global system" (Kirtton, 1989; xxxvii).

In practice, the G7 has demonstrated a substantial level of compliance with environment and sustainable development initiatives from 1992-1994. This level is particularly true for commitments that require the use of policy initiatives rather than commitments depending on economic processing. In addition, factors such as domestic pressures, the role of the media, heightened public awareness and the role of non-governmental actors also affect the degree to which Summit commitments are reliably implemented. The Naples communiqué made significantly fewer and less tangible commitments to environment and sustainable development matters than the two previous Summits. Global recessionary trends forced G7 leaders to divert attention from sustainable development to economic growth, jobs and trade. In the eight months following the Naples Summit, definitive conclusions cannot be drawn with regard to the degree to which the commitments made in Naples have been implemented.

Environment Minister Sheila Copps has called a G7 Environment Ministers' meeting to be held in Hamilton, Ontario in April 1995. At that point, the ministers could review their progress in meeting their promises made at Naples, assess their record in some detail, and issue a public report on progress to date, the action which remains, and the immediate steps needed to move forward. Such an analysis, perhaps prepared with the assistance of relevant government and societal stakeholders, would provide a collective, political level, expert judgement for the Halifax heads to determine where, in an era of diminishing, discriminatory fiscal resources, to best move to fully meet their commitments of the past three years, and set directions for the fourth cycle of summitry to come.

Annex A

Compliance with Summit Agreements by Issue Area

Economic and Energy Issues, 1975-1989

International Trade	0.734
Energy	0.660
Real GNP Growth	0.397
Inflation: Multicountry	0.266
Aid and Schedules	0.265
Fiscal Adjustment	0.259
Demand Composition	0.233
Interest Rate	0.221
Inflation Rate	0.221
Foreign Exchange Rate	-0.700

Compliance with Summit Agreements by Member Country

Economic and Energy Issues, 1975-1989

Britain	0.413
Canada	0.409
Germany	0.346
Italy	0.274
Japan	0.262
United States	0.246
France	0.240

(Average scores for the first 15 Summits, 1.0 representing total compliance. Source: Von Furstenberg and Daniels, 1991)

Annex B

Commitments Made at Recent Summits Concerning the Environment and Sustainable Development, Munich, 1992

Environment:

With respect to environmental issues, the Munich communiqué stated that: Rapid and concrete action is required to follow through on our commitments on climate change, to protect forests and oceans, to preserve marine resources, and to maintain biodiversity. We therefore urge all countries, developed and developing, to direct their policies and resources towards sustainable development which safeguards the interests of both present and future generations.

To carry forward the momentum of the Rio Conference, we urge other countries to join us:

- in seeking to ratify the Climate Change Convention by the end of 1993;
- in drawing up and publishing national action plans, as foreseen at UNCED, by the end of 1993;
- in working to protect species and the habitats on which they depend;
- in giving additional financial and technical support to developing countries for sustainable development through official development assistance (ODA), in particular, by replenishment of IDA, and for actions of global benefit through the Global Environment Facility (GEF) with a view to its being established as a permanent funding mechanism;
- in establishing at the 1992 UN General Assembly the Commission on Sustainable Development which will have a vital role to play in monitoring the implementation of Agenda 21;
- in establishing an international review process for the forest principles, in an early dialogue, on the basis of the implementation of these principles, on possible appropriate internationally agreed arrangements, and in increased international assistance;

- in further improving monitoring of the global environment, including through better utilization of data from satellite and other earth observation programs;
- in promoting of the development and diffusion of energy and environment technologies, including proposals for innovative technology programs; and
- by ensuring the international conference on straddling fish stocks and highly migratory fish stocks in the oceans is convened as soon as possible.

Development:

At Munich, the leaders made the following commitments with respect to developing countries.

We will continue our best efforts to increase the quantity and quality of official development assistance in accordance with our commitments. We shall direct official development assistance more towards the poorest countries. Poverty, population policy, education, health, the role of women and the well-being of children merit particular attention. We shall support, in particular, those countries that undertake credible efforts to help themselves.

Negotiations on a substantial replenishment of IDA funds should be concluded before the end of 1992. The IMF should continue to provide concessional financing to support the reform programs for the poorest countries. We call for an early decision by the IMF on the extension for one year of the Enhanced Structural Adjustment Facility (ESAF) and for the full examination of options for the subsequent period, including a renewal of the facility.

We confirm the validity of the international debt strategy. We welcome the enhanced debt relief extended to the poorest countries by the Paris Club. We attach great importance to the enhanced use of

voluntary debt conversions, including debt conversions for environmental protection.

TOKYO, 1993

Environment:

The environmental portion of the Tokyo communiqué stated the following.

We welcome the successful first meeting of the Commission on Sustainable Development and the progress made towards implementation and ratification of the Framework Convention on Climate Change and the Convention on Biological Diversity by the end of 1993, and on negotiation of a convention on desertification.

We renew our determination to secure environmentally sustainable development through an effective follow-up of the fruits of the UNCED, including the commitment to publish national action plans by the end of this year.

We will work to ensure that the Global Environment Facility (GEF), with its necessary improvements, functions as the financial mechanism to provide funding for the incremental costs of implementing the global environment conventions signed on at Rio.

We encourage the multilateral development banks to focus more intensively on sustainable development, to incorporate environmental appraisals into project preparation and to make them publicly available.

We look forward to a successful outcome of the UN Conference on straddling and highly migratory fish stocks. We shall continue to seek appropriate internationally agreed arrangements on the management, conservation and sustainable development of forests. We welcome the analysis being done by the OECD/IEA on the contribution of environment and energy technologies in meeting global environment concerns.

Development:

The Tokyo communiqué made the following commitments with respect to developing countries.

We will continue to strengthen our support for their

(developing countries) self-help efforts based on the principles of good governance. We will also encourage them to follow sound and open economic policies to create a solid base for sustainable economic growth.

To this end, we will pursue a comprehensive approach, covering not only aid but also trade, investment and debt strategy, and a differentiated approach, tailored to the needs and performances of each country at its particular stage of development and taking environmental aspects into account. Under such an approach, we will make all efforts to enhance development assistance in order to respond to ongoing needs as well as new requirements.

The poorest countries deserve special attention. Accordingly, we support the succession to or the renewal of the IMF's Enhanced Structural Adjustment Facility. We also look forward to a successful outcome of the International Conference on African Development in October this year.

We confirm the validity of the international debt strategy and invite the Paris Club to continue reviewing the question of debt relief for the poorest, highly indebted countries, especially with regard to earlier reductions in the stock of debt on a case-by-case basis. We welcome the US administration's decision to join us in debt reduction for these countries.

NAPLES, 1994

Environment:

With regard to the environment, the Naples declaration stated the following.

Environment is a top priority for international cooperation. Environmental policies can contribute to enhancing growth, employment and living standards, for example, through investments in appropriate technologies, energy efficiency improvements and cleaning up polluted areas.

We urge the multilateral development banks to continue making progress in promoting local participation and incorporating environmental considerations into their programs.

We support the work of the Commission on Sustainable Development in reviewing progress in the

implementation of the Rio process. We look forward to the implementation of the Conventions already concluded, in particular those on biological diversity and climate change, and in this respect we will work for the success of the forthcoming Conferences on these subjects in Nassau and Berlin.

We welcome the restructuring and the replenishment of the Global Environment Facility and we support its choice as the permanent financial mechanism of these two Conventions. We welcome the recent conclusion of the Convention on Desertification and the results of the Conference on Small Islands, which add to the framework agreed in Rio.

We are determined to speed up the implementation of our national plans called for under the Rio Climate Treaty and we will each report what we have achieved at next year's Summit. We also recognize the need to develop steps for the post-2000 period.

Development:

The leaders in Naples made the following commitments with respect to developing countries.

We are committed to continuing our efforts to enhance development assistance as well as to promote trade and investment in developing countries.

We also call on the World Bank as well as the regional development banks to strengthen their efforts to reinforce private capital flows to the developing world while providing growing resources for health, education, family policies and environmental protection.

We encourage the Paris Club to pursue its efforts to improve the debt treatment of the poorest and most indebted countries. Where appropriate, we favour a reduction in the stock of debt and an increase in concessionality for those countries facing special difficulties.

We welcome the renewal of the ESAF and the measures under consideration by the IMF to increase support to developing countries and to ensure that all members take part in the SDR system. In addition, we agree to explore ways to mobilize more effectively the existing resources of the international financial institutions to respond to the special needs of countries emerging from economic and political disruption and the poorest, most indebted countries.

In the Middle East, economic development is essential to underpin the peace process. Thus, along with others, we are providing financial and technical assistance to the Palestinian Authority and we are working to promote cooperation and development in the region. We call for an end to the Arab boycott of Israel.

We warmly welcome South Africa's transition to full democracy. This will open up new opportunities for trade and inward investment. We will provide further assistance to help strengthen economic and social development, in particular for the poorest groups. Not only the people of South Africa but also her regional neighbours have much to gain from steady economic policies that unlock her full potential.

Annex C

What They Gave?

For years, donors have restated their commitment to achieving 0.7% of GNP in aid, the UN target.

<u>Country</u>	<u>Aid as % of GNP</u>	<u>Country</u>	<u>Aid as % of GNP</u>
Norway	1.14	Austria	0.34
Denmark	0.56	United Kingdom	0.32
Sweden	0.92	Japan	0.32
Netherlands	0.88	Portugal	0.31
Finland	0.76	Italy	0.30
France	0.62	New Zealand	0.25
Canada	0.45	Spain	0.23
Belgium	0.42	United States	0.20
Germany	0.41	Ireland	0.19
Australia	0.38		

(Taken from *The Globe and Mail*, June 10, 1993,
Source: *The Reality of Aid*)

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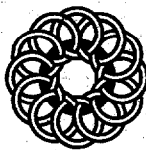


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