

Environmental Reviews of Trade Agreements: Assessing the North American Experience

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Summary:

Beginning in the late 1990s, Canada and the United States began requiring "Environmental Reviews (ERs)" of all trade agreements to be negotiated by each government. The purpose of these reviews is to help identify potential environmental effects of trade agreements, both positive and negative, in order to facilitate responses to such effects throughout the negotiation and implementation processes. This paper outlines how ERs have evolved in North America, and evaluates the different methodological approaches that have been employed in ERs thus far.

We show that the ERs conducted to date have an encouraging number of strengths that can be built upon. In both countries, ERs are becoming increasingly sophisticated in their analyses. Compared to earlier efforts, they have begun to apply rigorous quantitative and qualitative techniques in the attempt to identify the potential environmental impacts of a trade agreement. In addition, ERs have brought unprecedented levels of public participation into the trade policy-making process.

This paper also establishes that the art of conducting ERs reviews is still in its infancy. We identify four limitations with the methodological approaches that have been employed in the most recent ERs.

1. Environmental Reviews for trade agreements that will involve relatively small amounts of economic activity pay too little attention to analyzing the agreement's potential marginal environmental costs.
2. Environmental Reviews for trade agreements that are predicted to have "economy-wide effects" base the core of their environmental assessments on estimates derived from controversial economic modeling techniques.
3. Environmental assessments that are based on estimates from economic modeling are only as good as the economic models themselves.
4. Many environmental issues do not lend themselves to quantitative analysis, and are therefore largely ignored in the ER process.

Based on an analysis of these limitations, we propose four ways to improve how ERs are conducted in the future:

1. Broaden the scope of Environmental Reviews

The scope of ERs should be broadened to address two of the limitations discussed in this paper: the problem of the "moving target," and the exclusive focus on domestic impacts.

2. Expand the set of methodologies used to estimate economic impacts.

Comprehensive ERs should draw from a variety of methods to estimate the economic impacts of proposed trade agreements. For trade agreements that have potentially substantial economy-wide effects, rather than relying solely on intricate CGE models to form the "core" of their analyses, ERs should make use of simpler, more transparent partial equilibrium, input-output analyses, and similar techniques to estimate the primary and secondary effects of a proposed agreement.

3. Increase the number of environmental variables that are assessed.

Environmental Reviews should expand the categories of environmental problems that they seek to examine. Where ex-ante estimates of potential environmental effects are impossible to consider, ex-post analyses, both quantitative and qualitative, should be employed to fill in these gaps.

4. Enhance existing levels of inter-governmental and public participation.

There should be a built-in response mechanism whereby final drafts of ERs discuss the extent to which earlier public commentary has been incorporated into the final draft.