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**COMMISSION REPORT TO THE COUNCIL PURSUANT TO ARTICLE 7 (2)  
OF COUNCIL REGULATIONS NOS 3281/94 AND 1256/96  
ON THE SCHEME OF GENERALIZED PREFERENCES**

**Summary of work conducted within the OECD, ILO and WTO on the link  
between international trade and social standards**

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The increased efficiency offered by the liberalization of trade and international capital movements along with technological advances opens up greater possibilities for economic growth, job creation and lower levels of poverty. But this is no guarantee of a more equitable world. As a result, the EU, following the line it developed at the Copenhagen Summit, is lobbying within the international community to try to draw more attention to the social aspects of globalization. Since the end of the Uruguay Round in 1994, debate has focused increasingly on the social dimension of international trade and ways of making good inadequacies in core social standards the world over. The EU is striving to make real progress towards this goal.

The introduction of an incentive social clause into the GSP marked a step in the promotion of standards for international trade. The GSP is the first Community legal instrument to contain such a clause. From the start of next year, Article 7 of Council Regulations (EC) Nos 3281/94 of 19 December 1994 and 1256/96 of 20 June 1996 will open the way for extra preferences to be granted on request to those countries which implement the relevant ILO standards (Nos 87 and 98 on the right of association and collective bargaining, and No 138 on a minimum working age). However, before the clause actually comes into force, two things need to be done. They are set out in Article 7(2) of the Regulations. First, the Council must examine a Commission report on work done by the various international organizations like the WTO, ILO and OECD on the link between global trade and internationally recognized standards. It must also then examine a Commission proposal on the force of special incentive arrangements and how to implement them. The present paper represents the requisite Commission report.

Since the Commission's job is to propose implementation of a mechanism which already exists in principle, its power of initiative does not depend on the Council taking a favourable view of its report. But what the Council has to say on the matter will to some extent inform the eventual Commission proposal, which will therefore not be drafted until afterwards. Furthermore, the proposal should be examined in the light of an appraisal of whether the GSP's impact - especially the combination of graduation (including Article 6) and the special measures for the LDCs - is neutral overall.

In June 1994, the Secretariat of the OECD was charged with conducting a study into *trade, employment and internationally recognized labour standards, including basic concepts, empirical data on trade- and investment flows, and current mechanisms for promoting the highest labour standards worldwide.*

Discussions were held at joint meetings of the Trade Committee and its ELSA (Employment, Labour and Social Affairs) counterpart in close conjunction with other relevant OECD committees and directorates and international organizations such as the ILO. The highly sensitive and political nature of the subjects raised led to very long and heated debate at the meetings. The study, which sets out to investigate the links between labour standards enshrining basic human rights and trade/investment flows and policies, also assesses possible ways of promoting social standards globally. It was finalized last year and consists of three parts.

## **I. CORE RIGHTS**

The first part deals with labour standards in OECD and certain other countries. A distinction is made between core and other rights. The core rights are:

- freedom of association and collective bargaining, i.e. the rights of workers to join a trade union of their choice and to negotiate their working conditions with their employers freely;
- the elimination of exploitative child labour, debt bondage and types of work which endanger the health and safety of children;
- a ban on forced labour (slavery and compulsory labour); non-discrimination in the workplace, i.e. the right of all workers to the same respect and treatment.

These are the most widely ratified of the ILO's standards. They were singled out because they embody principles that governments of all countries, whatever their level of development, may be expected to espouse. They can directly improve working conditions and may also provide the bases for other standards which make a marked contribution to social development. In addition, the ILO Conventions make frequent mention of these standards. Nos 87, 98, 29, 105 and 111 all form important points of

reference for monitoring of, and compliance with, core labour rights, even if they have not been ratified by all countries.

On the issue of child labour, one important change is the shift away from an all-out ban towards a prohibition on *exploitation* alone. The distinction was made in the OECD study to bring out the fact that the eradication of child labour is not only a fundamental human right but is also to a large extent dependent on a country's level of development. As ILO Convention 138 refers to the *eventual* elimination of child labour, it was felt necessary to establish a more immediately applicable standard. The concept of exploitation provides a more effective weapon in the fight against the worst forms of child labour, irrespective of any country's level of development. This being so, the ILO should build on 138 with a new convention to deal with the most exploitative types of under-age labour.

## **II. LINKS BETWEEN CORE LABOUR STANDARDS AND ECONOMIC FACTORS**

The second part of the study looks at the links between core labour standards, trade, investment, economic development and employment in an attempt to answer certain questions. Is there a link between basic social standards, export competitiveness and international specialization ? Could the opening up of international trade and investment along with economic growth lead to better wages and social standards ? What is the impact of these standards on investment ? And what link do they have with employment levels ?

The factual analysis is limited and deals almost exclusively with the right of association and collective bargaining. This is due to a lack of data on other core standards and to the technical difficulties of assessing the link between respect for basic standards and economic factors.

The economic analysis, on the other hand, comes to the following conclusions:

1. Developing countries have no reason to fear that the above social standards could in any way adversely affect their economic performance or international competitiveness. There is nothing to suggest that countries with low standards achieve better export results than those with high ones. It is true that many governments deliberately bypass core standards as a way of improving trade performance. However, the study reveals that any attendant short-term benefits of this will most probably be outweighed by the economic costs of ignoring standards.
2. Compliance with labour standards could help ease protectionist pressures and work in favour of free trade. Allowing freedom of association and collective bargaining

has never been a barrier to trade liberalization. There is in fact a direct link between it and the success and sustainability of trade reforms.

3. Developing countries can improve their social standards without fear of any adverse effect on foreign investment flows. The figures show that, in 1993, 73% of direct foreign investment went to those OECD countries which generally complied with core labour standards both in law and practice. Such standards are not usually a factor in the investment decisions of OECD companies.
4. The study also concludes that trading with developing countries, where labour is cheaper, does little to increase either unemployment or the number of low-paid workers in the OECD. However, researchers differ on just how much trade affects sectoral employment trends compared with other factors such as technological progress and institutional changes. There is also disagreement about how much impact changes in the structure of trade have on wage inequalities.

### **III. MECHANISMS FOR PROMOTING WORLDWIDE CORE LABOUR STANDARDS**

The third part of the study is certainly the most controversial. Starting from the premise that market forces alone cannot automatically improve observance of core labour standards, it looks in detail at the different procedures and mechanisms currently used to do the job. These include multilateral surveillance and persuasion, technical cooperation, conditionality for loans, investment guarantees and preferential trade agreements, and the rules governing multinationals.

#### ***III.1. A greater role for the ILO***

The ILO could oversee the formulation of a social framework for world trade in order to achieve wider adoption of related standards in all countries. The Organization is in an ideal position to foster core labour standards since it has the surveillance tools to ensure international conventions are actually implemented. It also has its own committee on freedom of association to examine cases from all its member states. The ILO's constitution also includes a complaints procedure to tackle non-compliance with ratified conventions. The OECD study outlines a whole range of activities which could make the Organization even more effective, viz.:

- supporting it in its dialogue and direct contacts with governments;
- supporting compliance with standards as an implicit undertaking;
- taking a more targeted approach to intolerable forms of exploitative child labour;

- improving the ratification rate of conventions.

### ***III.2. The contribution of development cooperation programmes***

Development cooperation programmes do a great deal to promote certain core labour standards, especially those connected with child labour and union rights.

### ***III.3. Mechanisms proposed within international fora***

#### ***III.3.1. WTO disciplines***

WTO mechanisms are designed to ensure trading policies and practice are complied with. WTO members would need to reach agreement on whether and how the organization's procedures could be used to ensure core labour standards are respected worldwide. This would mean major institutional changes: articles and procedures would have to be amended, reinterpreted or made the subject of understandings. No such agreement has been reached.

#### ***III.3.2. Conditional loans from international financial institutions***

Another proposal in the study is to make international financial aid for borrower countries subject to observance of basic workers' rights. This is very controversial. The first problem is one of consistency: what of rights violations in those countries not requesting multilateral loans? Second, might such a move not hamper the economic development of applicant countries, thereby actually hindering an improvement in core labour standards?

### ***III.4. Regional and unilateral government action***

#### ***III.4.1. The North American Labour Cooperation Agreement***

NALCA is designed to improve working conditions and living standards in the US, Mexico and Canada. It contains core labour standards and rules on health and safety in the workplace and protection for migrant workers. The accord links each country's labour code to the regional trade agreement and has a dispute settlement procedure, which can lead to trade sanctions.

#### ***III.4.2. Trading preferences***

The Generalized System of Preferences certainly has a central role to play in improving core labour standards. Under the US scheme, for example, preferences depend on the country in question according workers "internationally recognized" rights. But this

system is clearly very punitive and works on a system of prior certification, itself based on criteria which are not always internationally recognized. This leaves the US executive significant powers of discretion in applying the certification system.

The study also analyses the Community GSP and its two clauses on social standards: the incentive and withdrawal clauses.

#### *III.4.3. Links between trade and workers' rights in the US*

The US has repeatedly attempted to legislate a ban on all imports produced by children, political prisoners or other detainees. In addition, under section 301 of the 1974 Trade Act, foreign laws and practices thought to be exploitative, unfair or discriminatory may be examined and negotiations conducted with the relevant country to obtain compensation. It is, however, very difficult to assess the full force of these mechanisms as they have never been used directly.

### *III.5. International standards for business conduct*

#### *III.5.1. ILO tripartite declaration of principles on multinational businesses and social policy*

The declaration aims to encourage multinationals, governments, employers and workers to respect human rights in the workplace. There are also plans for a dispute settlement procedure although this will be non-binding.

#### *III.5.2. The OECD code of conduct*

In 1976, the OECD drew up a voluntary code of conduct in its *Guidelines for Multinational Enterprises* with a range of recommendations, which member states invite firms to adopt. The aim is twofold: to encourage the positive contributions that multinationals can make to economic and social progress and to minimize and resolve the problems that their business might cause. The code is acknowledged to have a lot of advantages. First, it is not addressed to government agencies but direct to firms. Second, it does not impose sanctions but rests on voluntary undertakings by the firms themselves. Third, each government is involved in promoting and improving the recommendations contained in the code.

In the context of the current debate on the social aspects of international trade, the OECD's aim is to be able to use this code to promote the social clause within the multilateral system as a way of significantly furthering core labour standards. Once the code comes to back up other more general mechanisms, its effectiveness will be assured.

### *III.5.3. Codes of conduct for the private sector*

Although not compulsory, the ethical standards adopted by the private sector can help ensure core labour standards are respected. They can improve a company's image and encourage consumers to buy its products, thereby prompting other firms to adopt the same standards so as not to lose their market share. In this way influence can be brought to bear on supplier countries as well.

### *III.6. Private sector mechanisms*

- Moral pressure: consumers need to be persuaded not to buy on price alone but to take into consideration the conditions under which goods are made. Boycott campaigns can have an effect on the working conditions prevailing in some sectors.
- Labelling of consumer goods. One example of this is the "Rugmark" initiative to label Indian rugs not made by children. However, the way the initiative is policed has come under sharp fire.
- Investment which is in the collective interest.

## **CONCLUSION**

Despite the excellent standard of the research work done by the OECD Secretariat, differences between member countries prevented adoption of the study and meant it was submitted in the name of the Secretariat itself. However, the Committee on Employment, Labour and Social Affairs and the Committee on Trade submitted a joint report which, while highlighting disagreements between OECD members on some issues, also pointed to some of the positive findings of the study. These included the particular importance of certain labour standards, the compatibility between respect for these standards, economic development and the expansion of trade, and an acknowledgement of the central role of the ILO. The main difference was whether or not WTO mechanisms should be used to promote core labour standards. At its meeting last November, the ILO working party welcomed the quality of the report, which in many places stresses the areas where the OECD and ILO do agree. The report also supports the role, mandate and procedures of the ILO in the promotion of basic social rights.

## ILO

The creation of the International Labour Organization in 1919 testifies to a willingness on the part of the international community to act together for the advancement of social justice and living and working conditions throughout the world. The 180 conventions since adopted by the ILO provide the fullest set of international labour standards anywhere. The Organization's brief also includes using the means at its disposal to encourage exchanges of information and experience and to provide technical assistance and training systems.

Within the working party on the social dimension of international trade set up by the Governing Body in June 1994, the ILO launched an investigation into the effects of globalization on core labour standards.

The promotion of international standards and reform of the Organization's regulatory policy are other issues under the spotlight. A campaign was launched by the Director-General of the International Labour Office, Mr Hansenne, in 1995 to promote the seven international labour conventions the ILO sees as fundamental (Nos 29 and 105 on forced labour, 87 and 98 on freedom of association and collective bargaining, 100 and 111 on non-discrimination and 138 on the minimum working age). The campaign has already led to 29 new ratifications. The ILO has also managed to get the ball rolling on the specific problem of child labour, which should lead to the adoption in 1999 of a new convention on the most exploitative instances of this practice.

Also on the Organization's agenda is the problem of how to strengthen the system for checking that international labour standards are put into practice.

### **I. THE EFFECTS OF ECONOMIC GLOBALIZATION ON CORE LABOUR STANDARDS - DELIBERATIONS OF THE WORKING PARTY ON THE SOCIAL DIMENSION OF INTERNATIONAL TRADE**

In June 1994, the Governing Body of the International Labour Office decided to set up a tripartite working party (made up of employers, workers and governments) to look at all the relevant social aspects in the liberalization of international trade. The working party is open to all members of the Governing Body.

Given this rather vague mandate, the working party took a while to come up with a framework to guide its future deliberations. However, it did decide not to continue dealing with the issue of trade sanctions and to suspend further discussion on creating a

link between international trade and social standards by means of a social clause and a sanctions mechanism.

The working party seems to be directing its attention more towards the social consequences of globalization. A number of proposals have been put forward and some of them have already been implemented. It was also jointly agreed that the party should take due account of international deadlines and the work done by other international bodies such as the WTO and OECD.

### *1.1 Questionnaire on the effects of globalization*

This questionnaire on the effects of globalization and trade liberalization on the ILO's social objectives was sent out to member states at the International Labour Conference last June. Member states were asked to consult the most representative employers' and union organizations on the matter. By 30 October, the International Labour Office had received 136 replies from 128 respondents in 76 countries. The least developed countries, especially those in Africa, returned fewest questionnaires.

The initial set of (partial) responses were collated into a report which the Office prepared for the working party meeting in November. The report was not due to be examined, however, until March 1997. Below are the main findings contained in it.

#### *1.1.1 Effect of globalization and trade liberalization (1985-1995)*

Overall, workers are more negative than employers and governments, especially when it comes to the effect of globalization on jobs. The report shows, however, that the total number of jobs between 1985-95 increased by anything from a few percentage points in some countries to over 100% in Kenya. Nor does globalization seem to have had any major effect on the freedom of association or the level of workplace accidents. Differences of opinion do emerge, though, over social security coverage.

#### *1.1.2 Attitudes towards trade liberalization and globalization*

Disagreement is also apparent over the effects of globalization on national laws (especially those to do with export promotion and inward investment) and on governments' room for manoeuvre.

#### *1.1.3 International action and cooperation*

60% of respondents did not think trade liberalization and globalization have had a major effect on a country's ability to ratify and implement the ILO conventions on workers' basic rights or other labour standards. Among those who did, however, the reasons cited included the constraints imposed by structural adjustment policies and the need to attract foreign investment.

84% of respondents (including nearly all workers) wanted basic rights for workers to be universally recognized and adopted. As for how to achieve this, 69% came out in favour of action within the ILO. Other desirable main players cited were the WTO and, to a lesser extent, the OECD, EU, UN, UNCTAD and other financial bodies or regional organizations such as the OAU. Four types of measure were cited for promoting compliance with international labour standards: codes of conduct for business and industry; the development of a labelling system; import boycotts organized by unions, consumers or other non-government groups, and the extraterritorial enforcement of national laws.

### ***1.2 Other proposals***

Other proposals along similar lines to those in the questionnaire were also tabled at last November's meeting of the working party. These included a general examination of the means at the ILO's disposal to help member states tackle the social dimension of trade liberalization and consideration of a study into the positive economic effects of compliance with core labour standards.

Another idea was to conduct studies on individual volunteer countries to see how they had managed to protect their welfare provision in the face of the good or bad effects of globalization. Six countries have already come forward although the practicalities of carrying out such a study have yet to be worked out.

## **II. MAKING THE ILO'S REGULATORY ACTION MORE EFFECTIVE**

### ***II.1 Director General's campaign to promote core international labour conventions***

Within the ILO, there is almost total agreement on the "core" nature of the seven international labour conventions cited by the Copenhagen Social Summit. These conventions are Nos 29 and 105 on forced labour, 87 and 98 on freedom of association and collective bargaining, 100 and 111 on non-discrimination and 138 on the minimum working age.

Ratification of these conventions has, however, been far from uniform. As a result, the Director General of the International Labour Office decided in March 1995 to send all member states a letter on the subject. Every country which had not yet ratified all seven conventions was asked to say whether it was planning to do so, and if so, when, or if not, why not.

The effectiveness of this campaign is now regularly examined by the Governing Body's committee on legal issues and international labour standards.

Despite the fact that not all member states have yet replied, the campaign has seen some success, with 29 new ratifications. It has also highlighted the difficulties encountered by some states planning to ratify the conventions and the important role the Office's technical assistance could play in helping them.

### ***11.2 The problem of child labour***

Convention No 138 on the minimum working age is one of the seven core conventions but the number of countries which have ratified it is quite low. This relatively poor performance has often been ascribed to its complexity and unsuitability for some developing countries.

In addition, the International Labour Office has recently published a number of reports showing that child labour, particularly of the most exploitative kind, is again on the increase.

As a result, the International Labour Office has decided to include the issue on the agenda of the International Labour Conference in June 1998 and June 1999 in a bid to get a new convention adopted banning the most extreme forms of child labour immediately and unconditionally. The decision has received wide support.

The aim is not simply to tackle the issue through regulatory measures but to draw on technical cooperation too, especially the IPEC programme, which since its creation in 1991 has worked on the basis of voluntary contributions from member states (soon to be joined by the European Commission) to try to abolish child labour.

### ***11.3 Better policing of the conventions***

Current ILO monitoring consists mainly in examining regular reports from each member state on the conventions it has ratified. There is also a complaints mechanism but this does not have power to impose real sanctions.

To make the process more effective, a number of proposals are now being looked at by the ILO. One is to extend the existing procedure for freedom of association to all the core conventions. Under this procedure, it is possible to examine complaints against countries even if they have not ratified the relevant conventions.

## CONCLUSION

These developments show that the ILO is taking a more proactive attitude to the furtherance of international labour standards. Now that the WTO ministerial meeting in Singapore has confirmed the Organization's role in setting and promoting these standards, the pace of such developments could move up a gear.

### WTO

Despite pressure from some members, the links between international trade and its social aspects, including internationally recognized social standards, have not been discussed at any real length by the WTO since the Marrakesh ministerial conference in April 1994.

At the informal meeting of EU trade ministers in Dublin on 18 and 19 September last, the Director General of the WTO pointed to four areas of convergence on social standards: respect for core labour standards; recognition of the ILO's driving role on issues linked to labour and employment; a refusal to jeopardize the comparative advantages of low-wage countries and an assurance that trade sanctions would not be used as a possible weapon. He did warn, however, that the number of differences between delegations and particularly the refusal of some to have social issues debated within the WTO meant it would be very difficult to reach agreement in Singapore on a declaration based on these four points.

Subsequent events have partially borne him out. The failure to set up a working party to examine the link between international trade and social standards and look into areas where the WTO might join with other international bodies to help promote those standards gives little immediate hope of an overall solution being found at WTO level or even of any serious discussion on the issue within the Organization. However, as the following paragraph from the Singapore ministerial declaration shows, it would also be wrong to think no progress had been made:

*« We renew our commitment to the observance of internationally recognized core labour standards. The International Labour Organization (ILO) is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them. We believe that economic growth and development fostered by increased trade and further trade liberalization contribute to the promotion of these*

*standards. We reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question. In this regard, we note that the WTO and ILO Secretariats will continue their existing cooperation. »*

The wording confirms both the undertaking by each WTO member to respect internationally recognized labour standards and support for the ILO as the logical choice for setting them. Protectionism is ruled out, leaving the way open for a positive, incentive-based approach to the issue which could include greater cooperation between the WTO and ILO.

Far from condemning the Community's approach, particularly with respect to its GSP, the Singapore conclusions can be seen as a nod of approval.

## GENERAL CONCLUSIONS

The link between social standards and international trade has been much debated in a number of fora, leading to progress on certain concepts and more in-depth analysis, though not on the nature of the link, mainly because of fears over possible trade sanctions.

In the Commission's view two conclusions can be drawn for the purposes of this report, which is designed to enable the Council to review the context in which the GSP incentive clause will be activated.

1. First, the disagreements that have emerged have to do with means rather than ends. No one, not even in those countries which are wariest of the whole issue, really contests the basic objectives as formulated at the Copenhagen Summit and elsewhere. But many countries refuse to use trade as a way of achieving these goals for fear of getting into an uncontrollable protectionist spiral which might, however unintentionally, endanger the natural comparative advantages of developing countries.

Such fears are unsurprising in a debate which is focused primarily on the negative and punitive aspects of the social clause and which has done little to cast the issue in a positive light. This is despite the fact that the Community GSP is offering incentives to developing countries in an approach based on cooperation rather than confrontation. Another point is that the social clause has been mainly discussed either in terms of economic and commercial policy (competitiveness) or in terms of human rights. Little room has been given to the development policy of which the GSP forms part.

There is therefore nothing in the international debate on the social clause that should deter the Community from pressing ahead with the incentives provided for in/its GSP scheme.

2. To implement its incentive system, the Community has a choice: it can opt either for achieving its goals on the ground and introducing a genuinely effective clause, or for political signalling via a clause which is simpler to implement but potentially less effective in practice.

The social concepts and criteria in the ILO conventions are clear-cut enough to warrant the first option. For a real improvement in the social policy of beneficiary countries, the extra advantages given to exporters would have to be attractive, meaning that the additional preferential margin would have to be substantial. Controls must also be possible. This means beneficiaries must apply for the clause by lodging a declaration in principle requesting entitlement and guaranteeing in return that every exporter or producer will comply with the standards. The resulting knock-on effect would lead to all other exporters and producers adopting similar practices. This is the only way real

progress could be made on the ground. Only through strict control and cooperation procedures applicable to exporters can any headway be made and substantial concessions secured.

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relationship between international trade and the environment**

Sustainable development has a dual role, to protect the environment and foster social progress, and is now the core objective of national development strategies and international cooperation. The Rio Conference in June 1992 was a significant step in this direction. The Conference adopted Agenda 21, and action programme committing national governments to the promotion of sustainable development at national level and international cooperation.

It is against this background that the international community has come to realize the importance of forest resources, which are vital not only to ecosystems but also to the human race. Their overexploitation is a threat to the environment and hence the development of many timber-producing countries.

The particular problem of tropical forests has been resolutely tackled with a whole range of initiatives being taken in the relevant international forums, where significant progress has been made in defining environmental criteria. Their objective is not so much to restrict logging and prevent complete deforestation as to promote sustainable management of natural tropical forests. This underpins the objective of the environmental criteria for a Community ecolabel for paper. It is essential that preference be given to tropical woods from forests managed on a sustainable basis.

The European Union has provided large sums of aid for the protection of tropical forests in order to promote their sustainable management. Its policy is based on incentives rather than coercion. This is the objective of the Community GSP. The purpose of the environmental clause provided for in Article 8 of Regulations No 3281/94 of 19 December 1994 and No 1256/96 of 20 June 1996 is to promote the import of products whose characteristics or production methods are internationally approved, as a means of attaining the objectives of international environmental agreements.

The incentive environmental clause offers additional customs preferences to any country which applies for them and can demonstrate that it complies with international environmental standards, in particular those set by the International Tropical Timber Organization for tropical forest management. The environmental clause exists but is not yet operational; it does not come into force until 1 January 1998. Before it does, the Commission is required to draw up a report on the work of the International Tropical Timber Organization, the Organization for European Cooperation and Development and the World Trade Organization on the relationship between trade and the environment.

The report which is hereby submitted focuses on the only area expressly covered at this stage by Article 8 of Regulation No 3281/94, i.e. the definition and measurement at international level of sustainable forest management, and is based on documents relevant to the implementation of the environmental clause. It does not, however, exclude the eventual extension of the clause to other international environmental standards. Other international conventions such as the Conventions on Biological Diversity (1992) and Climatic Change (1992) and the 1989 Basle Convention on Hazardous Waste will have to be borne in mind even though none of them provide a practical basis for implementation of an environmental clause.

The Commission will submit a proposal for a decision to the Council on the intensity of the special incentive arrangements and the detailed procedures for their implementation in the light of this report.

Council approval of the Commission's report on the work of international organizations does not of course preclude the Commission from taking its own initiative in this area and proposing the implementation of arrangements which already exist in principle. However, since the outcome of the Council's work will form one of the bases of the Commission proposal this will not be drawn up until the report has been discussed. The Commission proposal will also have to be examined in the light of an evaluation of the global neutrality of the GSP's impact and the combined effects of graduation (including application of Article 6) and the special measures for less-developed countries.

## WTO

The preamble to the Agreement establishing the World Trade Organization recognizes the need to preserve the environment and promote sustainable development. One of the WTO's fundamental principles discussed during the Uruguay Round multilateral trade negotiations was the need to take account of the relationship between the multilateral trading system, greater environmental protection and the promotion of sustainable development. Article XX of GATT 1997 (points (b) and (g)) authorizes measures to conserve exhaustible natural resources provided they do not constitute arbitrary discrimination or a disguised restriction on trade.

The WTO's General Council set up a Committee on Trade and Environment in early 1995. The Committee has been very active and has met regularly to make a detailed assessment of the relationship between the liberalization of international trade and environmental protection and to consider all the possible ways of reconciling their imperatives.

Despite its two years of work the Committee was unable to make any concrete proposals to the Singapore Ministerial Conference in December 1996. However, in its conclusions the Committee recognized that *"the multilateral trade system has the capacity to further integrate environmental considerations and enhance its contribution to the promotion of the sustainable development without undermining its open, equitable and non-discriminatory character"*. The Committee also strongly endorsed a multilateral approach based on international cooperation and consensus as the best and most efficient way for governments to tackle environmental problems of a transfrontier or global nature.

However, its report does not make any recommendations on the relationship between international trade and environmental protection. The Singapore Ministerial Conference simply refers to the work of the Committee on Trade and Environment, underlining the need for greater coordination at national level on trade and environmental protection but not drawing any real conclusion other than that the Committee should continue its work. This is reflected in the Ministerial Declaration:

*\* The Committee on Trade and Environment has made an important contribution towards fulfilling its Work Programme. The Committee has been examining and will continue to examine, inter alia, the scope of the complementarities between trade liberalisation, economic development and environmental protection. Full implementation of the WTO Agreements will make an important contribution to achieving the objectives of sustainable development. The work of the Committee has underlined the importance of*

*policy co-ordination at the national level in the area of trade and environment. In this connection, the work of the Committee has been enriched by the participation of environmental as well as trade experts from Member governments and the further participation of such experts in the Committee's deliberations would be welcomed. The breadth and complexity of the issues covered by the Committee's Work Programme shows that further work needs to be undertaken on all items of its agenda, as contained in its report. We intend to build on the work accomplished thus far, and therefore direct the Committee to carry out its work, reporting to the General Council, under its existing terms of reference. »*

## OECD

The OECD Council adopted a recommendation on environmental indicators and information in 1991 calling for the development of a set of core indicators which are reliable, legible, measurable and relevant to decision making. A number of indicators were drawn up by the OECD Group on the state of the environment. These focus on thirteen areas and measure environmental performance and the integration of environmental matters into sectoral and economic policies.

The OECD's core indicators for forest resources can be summarized as follows:

1. Ratio of logging to production capacity
2. Forest distribution volume and area terms
3. Proportion of forests which have changed or deteriorated within total forest area
4. Percentage of forests which have been successfully regenerated (including natural regeneration)
5. Percentage of protected forests in total forest area.

The OECD's criteria are useful for country reports on environmental performance. They may also be used to make a global assessment of forestry resources for each OECD country.

At this stage the OECD's work is still primarily of an analytical nature.

The International Tropical Timber Organization contributes to the conservation and prudent exploitation of tropical forests through their sustainable management. Sustainable forest management is "the process of managing permanent forest land to achieve one or more clearly specified objectives of management with regard to the production of a continuous flow of desired forest products and services without undue reduction of its inherent values and future productivity and without undue undesirable effects on the physical and social environment."

At the national level, a forest policy aiming at sustainability is "a policy that guarantees the sustainability of all ecological forest types of a country in a balanced way and divided over a reasonably sized permanent forest estate." Management of a forest is considered to be sustainable when it "guarantees the continuity of all recognized principal functions of a particular forest without undue effects on the other functions".<sup>1</sup>

## I. THE YEAR 2000 OBJECTIVE

The ITTC adopted the Year 2000 Objective at its 8th session in Bali in May 1990. The ITTO's member countries have undertaken to trade only in tropical timber from sustainably managed forests by the year 2000. At the ITTC's 20th session on 15 and 23 May 1996 producers and consumers reached a consensus on the mid-term review to be undertaken. Producer countries are aware of the importance of sustainability criteria and accepted a decision involving the reconstitution of a panel of experts to examine the estimated costs and resources required to attain the Year 2000 Objective, a commitment to priority areas for their future action and acceptance of the measures described above.

## II. THE ITTO'S GUIDELINES

The ITTO has drawn up guidelines for the sustainable management of natural and artificial tropical forests and the conservation of biodiversity in tropical production forests. These are based on the following principles:

### II.1. National forest policy

The ITTO recommends that national forest policy should form an integral part of national land use policy and ensure balanced exploitation of resources. It should cover:

1. The present area of forest land
2. The needs and aspirations of present and future generations
3. Forestry's role in national economic planning
4. Forestry policy objectives and their relative importance
5. Respective importance of public and private forests
6. Programmes to assess the importance of biodiversity in all areas.

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<sup>1</sup> Definition adopted by the International Tropical Timber Council (ITTC) in 1992, Intergovernmental seminar on the criteria and indicators for sustainable management of forests, August 1996, Helsinki.

National policies should be underpinned by appropriate legislation which itself must be compatible with that applying to other sectors. A mechanism for national policy review should be set up to deal with any new social, economic and ecological eventualities and incorporate any new information which becomes available.

The ITTO underlines the need for studies of all the economic benefits of managed forests, the siting and extent of any replanting which is required, environmental protection needs, demand for forestry products, the capacity of forest estates, and the degree of dependence and demand of local communities in the light of the economic, spiritual and cultural values of the land on which replanting is planned.

## **II.2. National forestry inventory**

An inventory of forest resources and area should determine the importance of all forests irrespective of land ownership and describe, quantify and comment on biodiversity in all production forests. Such inventories must be able to incorporate any new information which becomes available.

## **II.3. Permanent forest estates**

Certain types of land have to be maintained under permanent forest cover. The ITTO refers in particular here to protect land, land designated as a nature reserve, land used for the production of timber and other forestry products, and land which fulfils more than one of these objectives. The many categories which make up permanent forest estates must be identified, explored and defined with the local communities concerned in the light of their demands.

The ITTO recommends that natural forest should not be cleared for replanting unless a rational analysis can prove that this is necessary to maintain land under forest cover.

Again according to the ITTO, areas requiring total protection in natural forests should be defined and these semi-wild protected forest core areas should be demarcated to prevent encroachment and to preserve their ecological function. Erosion of biodiversity should also be kept to a minimum by ensuring continuity between undisturbed forests.

## **II.4. Land ownership**

The ITTO's principles and recommendations apply to all forests irrespective of whether they are under national, private or common ownership. They can be applied only if local communities accept the land use changes and the uses proposed.

## **II.5. National forest department**

There should be a national forest department with the necessary mandate capability to ensure that forests are managed in an integrated way to preserve all their values including biodiversity.

## **II.6. Feasibility studies**

The ITTO recommends that feasibility studies be made of the ecological impact, socio-economic implications (better access to resources, job creation, investment opportunities, industrial development, increased income but also impact on land ownership, deterioration of natural values, etc.) and institutional aspects of sustainable reforestation.

## **II.7. Forest management**

### **II.7.1. Planning**

A management plan is essential for sustainable forest management and the creation and management of replanted areas. It should form the basis of all management practice or forecasting. Plans should cover the following subjects: areas to be excluded from reforestation and logging, form of management, regulation of output and achievable annual targets, layout of roads, hauling tracks and fire strips, management inventories and maps, methods of land preparation, planting, maintenance, erosion control, soil compaction, fire protection and control, biological control of pests and spraying, disease and climatic disaster prevention, development of marketing outlets and a logging plan, measures to ensure local communities benefit from all the benefits of forests and recognition of common law rights.

### **II.7.2. Logging and extraction**

Logging rules are essential as they will ensure extraction and management practices are harmonized. According to the ITTO, detailed rules should be laid down on edging, marking of trees to be felled or retained, indications of felling direction and skidding. The size of openings should be reduced and the use of machinery and damage to remaining stands kept to a minimum. After logging an inventory should be drawn up of any management measures which need to be taken.

### **II.7.3. Protection**

Permanent production forests should be protected against activities which are incompatible with sustained timber production. Forest infrastructure work should be carried out in a way which reduces as far as possible erosion risks and other damage to habitats and the environment in general. A fire control plan should be drawn up as fire is a serious threat to productivity, ecological stability and the quality of reforestation and instructions should be given on the handling and storage of chemicals.

### **II.7.4. Legal provisions**

The ITTO's guidelines contain legal provisions on concession agreements, cutting concessions on lands under private or common law ownership and reclamation concessions.

### **II.7.5. Research and monitoring**

The objective is to provide information on the compatibility of forest management practices with the objectives of sustainable timber production and other forest uses.

## **II.8. Socio-economic aspects**

At the socio-economic and financial level there must be a fair distribution of costs and benefits between regulatory authorities, owners, concession holders and local communities. The ITTO underlines that the success of forest management and reforestation depends on the relationships established with the local population. Economic viability is essential. The ITTO also plans to exploit the financial benefits to maintain the productive capacity of forest resources and to review forests taxes and charges.

## **III. THE ITTO'S CRITERIA AND INDICATORS<sup>1</sup>**

The ITTO defines these criteria as instrumental to the establishment of a basis on which to assess sustainable forest management. An indicator is a qualitative, quantitative or descriptive measurement of the direction of change. Criteria and indicators will help improve existing forest policies or lead to the development of quite new policies. They can be used to aid research or to guide forest practices towards sustainable management. They can also be used to highlight threats and weaknesses.

The ITTO has defined a number of criteria for its Year 2000 Objective. Their purpose is to measure sustainable tropical forest management. According to the ITTO's definition they can be used to focus on present management weaknesses and to identify improvements which can be made in management practices. They can also provide a basis for a standard reporting system to facilitate comparison and discussion for cooperation and assistance. They are another demonstration of the ITTO's commitment to achieve sustainable management of tropical forests. The criteria have been identified to help producer member countries of the ITTO to both assess and report on their own progress towards achieving tropical forest management and the Year 2000 Objective

The ITTO has drawn up five criteria and 27 indicators for use at national level. The five criteria are:

1. The forest resource base
2. The continuity of flow
3. The level of environmental control
4. Socio-economic effects
5. Institutional frameworks.

The possible indicators are:

1. Comprehensive land use planning and provision for the Permanent Forest Estate (PFE).
2. Present area of the PFE in relation to national goals and targets.
3. Plantation establishment targets, present age class distributions, and annual planting regimes.
4. Areas of Protection Forests and Production Forests within the PFE.
5. The representativeness of the protected areas network and the current or planned reservation programme.

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<sup>1</sup> Criteria for the measurement of sustainable forest management, ITTO - Policy Development Series No 3, March 1992

6. National production statistics of Forest Products over time.
7. Documentation of logging (area) histories over time.
8. Proposed cutting cycle lengths for major forest types, and standard concession lengths.
9. Regulation of initial harvesting rates in relation to defined cutting cycles and net area of production forest.
10. Regulation of subsequent harvesting in relation to increment data and the net area of production forest.
11. Steps taken to harmonize the first and subsequent cutting cycles and manage the transition from the first to the second cutting cycle.
12. Wood production targets over time for various sources.
13. The availability of silvicultural prescriptions for the major forest types.
14. Management prescriptions for other non-production components of the PFE.
15. The availability of engineering, watershed protection and other environmental management prescriptions for production forests.
16. Availability of environmental assessment procedures.
17. Employment patterns and trends.
18. Income generation and distribution patterns.
19. National revenue and expenditure budgets for forest management.
20. Availability of environmental assessment procedures.
21. Existence of a national forest policy.
22. The relationship of national policy to ITTO Guidelines.
23. Adequacy of the legislative framework to implement national forest policies and management plans.
24. Adequacy of legislation to regulate harvesting and specific agreements, e.g. concession agreements.
25. Adequacy of human and financial resources to meet legislative and administrative responsibilities in sustainable forest management.
26. Community consultation.
27. Existence of management plans and provisions for their implementation.

Six other criteria have been defined at forest management unit level:

1. Resource security
2. The continuity of timber production
3. The conservation of flora and fauna
4. An acceptable level of environmental impact
5. Socio-economic benefits
6. Planning and adjustment to experience.

There are 23 indicators at forest management unit level:

1. The legal establishment of forest areas or management units.
2. Existence of a management plan.
3. Clear demarcation of boundaries in the field.
4. The presence or absence of illegal exploitation and encroachment.
5. The duration of concession agreements.
6. The presence of clear, official harvesting rules.
7. Long-term soil productivity.
8. A pre-logging stand inventory.
9. The number of trees and/or volume of timber per hectare harvested.
10. Provision for monitoring the residual growing stock after logging.

11. Records of annual product outputs over time.
12. Net productive area.
13. Records of annual areas cut over time.
14. Protection of eco-systems in the concession or management unit.
15. The extent of vegetation disturbance after logging.
16. Extent of soil disturbance.
17. Extent and spatial distribution of riparian and other watershed protection areas.
18. The extent and severity of soil erosion.
19. Provision for protection of bodies of water.
20. The number of people employed.
21. The nature and extent of benefits from forestry activities.
22. Community consultation.
23. Arrangements for Forest Management to take into account traditional forest utilization.

The ITTO has demonstration areas in a number of producer countries where projects are being carried out to test and define sustainable management of tropical forests. The criteria adopted are not, however, binding on its member countries. Their purpose is simply to help identify improvements to management practices.

These criteria and indicators are extremely valuable instruments which can be used to improve the quality of forest management as an integral part of sustainable development in the countries in which they are used.

The criteria have not, however, won universal favour. While they can be used to assess the overall policy of a country or forest management body they do not measure the degree to which individual loggers comply with standards. This does not facilitate the implementation of the GSP incentive clause as no correlation can be made between the products exported and products processed according to sustainable forest management standards. Without a measurable correlation application of environmental standards can be enforced only at the broadest country-by-country level.

#### **IV. CONCLUSIONS**

The ITTO is one of the international leaders on trade and the environment. Its standards aimed at improving national environmental policy and assessing forest management practices are probably the only internationally acceptable ones at the present time. Its criteria are not, however, designed to assess practices at local level. They cannot therefore be used for product certification. The problem of certification was discussed at length at the ITTO's 20th session in May 1996. The ITTO decided to examine this matter in more detail and deferred its discussion to the ITTC's 23rd session in November.

Parallel to the ITTO's work in this area, the Intergovernmental Panel on Forests set up in 1995 by the UN Economic and Social Council on the recommendation of the Commission on Sustainable Development has also made proposals for coordinated international action on the conservation and sustainable management of forests. These include criteria and indicators for sustainable forest management to be developed at national and regional level.

## GENERAL CONCLUSIONS

A number of conclusions can be drawn from the foregoing on the direction of the general debate and on the implementation of the environmental clause in the GSP:

1. The development of criteria and indicators has brought about a number of changes in forestry practices aimed at sustainable management. International initiatives may provide a catalyst. The many contacts established between countries have promoted espousal of principles of interaction, openness, information, transparency, participation and consultation. The work undertaken under these initiatives is evidence of a political will to obtain practical results. The development of criteria and indicators has had a positive impact at international level which can be summarized as follows:

- greater participation in international dialogue on forests
- greater globalization of the debate without any dilution of national sovereignty over forest resources
- promotion of cooperation and greater mutual understanding
- gradual establishment of clearly defined objectives
- movement towards consensus
- promotion of information
- establishment of a basic model for similar exercises.

2. The work which has been done on this issue should encourage the Community to press ahead with implementation of the clause. There are, however, still some problems in the technical identification of internationally approved standards which might be used for application of such an incentive clause. With the exception of the work of non-governmental organizations, which cannot be used as an objective and incontestable yardstick, the relevant international bodies and the ITTO in particular have not produced standards which can be used to measure the environmental progress made by the logging industry, since the criteria adopted are in effect guidelines for national forest policy but do not lay down any benchmark against which to assess whether they are actually applied.

As things stand it would therefore be impossible to implement an export-monitoring based system. This means that either the Community itself must impose its own interpretation of the application of ITTO guidelines, which is contrary to Article 8 of the GSP Regulation, or it must recognize the differing interpretations of each beneficiary country, and this would be unmanageable. Consequently the option proposed is for global verification at country level of countries' compliance with the ITTO's guidelines or the efforts they have made in this direction. With such an approach the emphasis would be on dialogue and progress towards standardization rather than strict compliance with standards. Such a scenario of course allows a very simple monitoring mechanism. On the other hand, the benefits must not be so nebulous that beneficiaries consider the whole exercise pointless. Here, therefore, in contrast to the option adopted for the social clause, we are going for a political signal rather than practical impact on the ground.

3. One final point. For some time the Community will have to confine itself to applying a clause limited to tropical forest-based products only. This is a pity as needs, particularly in the agriculture sector, are huge.<sup>1</sup> The need for internationally recognized criteria to apply this clause must, however, be born in mind. Only the tropical forests sector has made any progress in this direction. It is up to the Community to promote the definition of criteria for other sectors within international forums.

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<sup>1</sup> The possibility of using this clause for certain products (e.g., shrimps) might be considered if they are farmed under conditions consistent with the principles of sustainable management of mangrove-type forests.