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## Press Bulletin

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**As revealed by a GEO MERCOSUR Report presented yesterday**  
**Trade and Regional Integration**  
**Influence the Environmental Dimension**

- **Natural resources constitute 60% of all Sub-Regional exports**
- **Countries are not environmentally isolated: 11 of 55 ecoregions are shared and transnational**
- **Study was launched during the IX Meeting of Environmental Ministers from Mercosur and Associated States**

**Rio de Janeiro, Brazil. 14<sup>th</sup> November 2008. United Nations Environment Programme, Regional Office for Latin America and the Caribbean.**

Rio de Janeiro. The GEO MERCOSUR: Integration, Trade and Environment report, analyzing how commerce and regional integration play a decisive role on natural resources, ecosystems and bioregions, was presented at Rio de Janeiro's Botanical Gardens, during the upcoming IX Meeting of Environmental Ministers from the Southern Common Market (MERCOSUR) and Associated States, held on the 14th November 2008. This report refers to the area covered by some of the countries constituting MERCOSUR, including Argentina, Brazil, Chile, Paraguay and Uruguay.

The study analyzes these five countries, representing a 12 million square kilometer, with a population of more than 250 million inhabitants and where primary goods procured from nature constitute about 60.5% of all exports, generating approximately 105 million US dollars in 2004. Furthermore, these countries share 55 ecoregions among themselves, which means that none of them are environmentally isolated and making it more necessary than ever to promote coordinated environmental actions.

The Brazilian Minister of Environment, Carlos Minc, and his counterpart from Uruguay, Carlos Colacce, and Ricardo Sanchez, Director of the United Nations Environment Programme, Regional Office for Latin America and the Caribbean, were among those delegates who lead the launch of the publication.

For the first time, this GEO MERCOSUR report offers an analysis on relationships between trade and the regional integration process and their environmental dimension. The study reviews the situation in Argentina, Brazil, Chile, Paraguay and Uruguay, focusing on close interactions between the main foreign trade flows and their environmental implications, multilateral negotiations and their effect on promoting or restraining sustainable development and institutional reactions.

Moreover, the text includes information and recommendations that will assist authorities in the Sub-Region so they can consider how this trade-integration-environment relationship interacts and the importance of maintaining the natural resource base to assure long term continuity of productive processes, reinforcing political frameworks and coordinating strategic actions to guarantee sustainable development.

The publication offers 16 areas where lines of action are proposed, based on the report's main findings. Highlighted among them are: delving further into incorporating the environmental dimension into regional integration; biodiversity conservation; working together with an integral view on shared natural resources; analyzing opportunities or restrictions resulting from environmental measures on commercial competitiveness; having export and import processes better reflect environmental costs, and strengthening citizen participation and access to information on decisions affecting natural resource preservation.

GEO MERCOSUR is the result of joint collaboration between the United Nations Environment Program (UNEP), through its Division of Early Warning and Assessment (DEWA), an important group of experts from public and private universities and civil society groups in the above-mentioned countries, working under guidelines from the Sixth MERCOSUR Working Sub-Group for Environment (SGT-6) and with technical coordination from *Centro Latinoamericano de Ecología Social* (CLAES).

The report is one of several integrated environmental evaluations that UNEP has been carrying out in diverse cities, countries, sub-regions, regions and globally, aiming at providing elements and relevant contributions on this topic. On this particular occasion, what is relevant is that for the first time, the trade-environment relationship and the process of regional integration have been brought together under the GEO methodology (Global Environment Outlook).

## **Trade**

Substantial importance in national economies has been made evident with respect to export activities towards the rest of the world, more than within MERCOSUR itself, but with environmental implications. Thus it has been estimated that at least 60.5% of all exports from the countries covered in this study refer to primary goods and represented more than 105 million US dollars in 2004, according to data from the Economic Commission for Latin America and the Caribbean (ECLAC) in 2006, said the GEO MERCOSUR report.

The proportion of primary goods or raw material within the total export value ranges from 47% in Brazil to 87% in Paraguay. Accordingly, in all countries except for Brazil, more than half of all exports are based on primary resources instead of manufactured goods. From MERCOSUR's inception, Chile has ranged between 80% and 90% of exports based on such resources, Uruguay has stayed close to 60%, and Argentina has hovered around 70%.

As a consequence, primary products not only are highly represented in total exports, but they are concentrated in just a few products: minerals, hydrocarbons, fisheries, agricultural and livestock products and, in the case of Chile, forestry. Environmental protection measures imposing restrictions on natural resource extraction are highlighted as opposing potential revenues from their export, where these prices are mostly determined by countries and businesses not directly suffering the environmental impacts or taking these into account.

At the same time, prices for many primary products have increased since 2002 approximately, compared with prior years. The greatest increases were registered in energy, followed by agricultural and livestock products and thirdly by minerals.

## State-Impact-Pressure

GEO MERCOSUR mentions key emerging topics to be considered, particularly emphasizing shared areas and resources and their links with trade and regional integration. These key emerging topics, resulted from different national consultation processes, are the following: over-exploitation of natural resources for export; advancing agricultural frontiers and deforestation; fragmentation of forests and loss of soil and water quality; impacts of monoculture for export; **ecologic "back-packing"** (waste products, scraps, unutilized products, etc. that are left behind by natural resource exports); illegal appropriation and trade; hazardous waste, toxic substances; physical interconnection; energy interconnection, and mega-export projects.

The report recognizes that over 50% of the area covered by the study has been modified by human use and appropriation, resembling conditions in many industrialized countries. It also mentions that international trade and/or current integration processes have affected all ecoregions (a total of 55) in one way or another and in varying degrees.

The body of tropical forests known as the Amazonia is facing diverse pressures and threats, including illegal trade of fauna and flora, deforestation, mining, and the advancing agricultural frontier. However, forests have been converted into agroforestry systems, new problems arise due to productive use, such as the introduction of exotic species, the use of agricultural chemicals, and building of new infrastructure, among others.

The Amazon River and its flooded forests are relatively stable ecologically and intact, although selective felling of some species, conversion of certain flood zones to agricultural activities, overfishing, and contamination as a result of mining activities have exerted considerable pressure.

Although mangrove swamps offer a relatively stable and intact state of conservation in some sites, they are also threatened by chemical compounds and oil refineries, as well as sedimentation resulting from agricultural activity.

Rain forests in the Guyana highlands are considered to be relatively stable and intact. Nonetheless, they are strongly pressured by mercury contamination from mining activities, construction of reservoirs, and hunting. Subtropical forests in the Yungas are in a critically threatened state, particularly due to agricultural conversion such as sugar cane and, more recently, soy and forestry exploitation.

El Cerrado, whose state of conservation is critically threatened, is also under a process of rapid expansion of the agricultural frontier, mostly due to soy farming and cattle raising. The Pantanal, on the other hand, is affected by agricultural and cattle farming expansion, water projects, mining and overfishing.

GEO MERCOSUR has indicated that approximately 90% of the Atlantic Forest has disappeared, since a significant area was converted for farming of sugar cane and coffee for export. For this reason, its state of conservation is evaluated as critically threatened.

Meanwhile, moist forests in Araucaria have been evaluated as critically threatened since they have also been reduced by about 90%. At the same time, the Paraná forest is considered critically threatened particularly due to the advancing agricultural frontier, and it is estimated that only about 5% of its original area remains. Argentina's Southern Cone Mesopotamian savanna are classified as vulnerable and threatened by destruction and degradation of its natural habitat as a result of agricultural and cattle farming activities and overgrazing. The Atacama and Sechura deserts are vulnerable as a consequence of urbanization, mining activities, road construction, cattle

farming, commercial plant collection and erosion. The Espinal in Patagonia is critically threatened; although having a low human population density, it has been affected by overgrazing. The Valdivian temperate forests are considered critically threatened in view of the fact that a third of their original coverage has been lost.

The report also mentions that the principal pressures identified are associated with driving forces operating in socio-economic conditions and on institutions regulating environmental policy and management. These, in turn, are causes for environmental changes. Thus, the following have been identified: demand for resources from other markets; a marked need for external capital flow; and global institutions and regulations that shape rules and conditions under which global trade operates (for example the World Trade Organization [WTO] and the General Agreement on Tariffs and Trade [GATT])

## **Agrofuels**

Agrofuels (taking advantage of food crops to produce biofuels, such as biodiesel or bioethane) are emerging as very significant elements in the interaction between trade and the environment, since these are starting to expand due to changes in the internal markets, where countries are approving regulations requiring an increased proportion of these agrofuels. Thus, for example, a demand for 200,000 m<sup>3</sup> of ethanol is expected in Argentina by 2010 as well as some 700 million liters of biodiesel being produced from 1.3 million hectares of soybeans production.

The GEO MERCOSUR report considers that the key issue in this process is the fact that agrofuel demand adds to pressing factors from agricultural expansion or intensification and although some analysts consider that this increase in production will not necessarily cause the agricultural frontier to advance, others estimate that such an effect will be inevitable, whether due to direct agricultural growth or to indirect effects. Furthermore, with respect to the controversy around carbon emission reduction with agrofuel use versus emissions generated by changes in the use of land in order to cultivate them, the report indicates that tropical forest conversion (such as Amazonia) or wooded savannas (such as El Cerrado) will result in a net deficit since the CO<sub>2</sub> emissions generated will be greater than the emission of greenhouse gases saved by using fuels.

With respect to food prices, these have significantly increased between the second quarter of 2006 and the first quarter of 2008 and such price increases have reached an average of 67.8% in mid-income and low-income countries and the tendency is repeated in the countries considered in this report. Factors for such an increase are explained by the “commodities super-cycle”, advancing biofuel production, climate problems reducing production in some countries, a weak dollar, a price increases for agricultural inputs, and an influx of speculative funds in the agricultural futures markets.

## **Policy reactions**

The increasing importance of international trade and advances in regional integration have promoted and fostered diverse policy and management reactions in order to meet environmental demands. In consequence, all countries considered in the GEO MERCOSUR report are WTO members and are therefore involved in GATT; furthermore, they also participate in the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

The countries considered in this report also participate in negotiating groups having common interests and some of them being highly relevant in environmental topics. Of note is the “Cairns Group”, including countries that are large exporters of agricultural products (both industrialized and developing countries) and the “Group of 20”, that includes only developed countries that are great agricultural producers and consumers and, in all cases, furthering free global trade in these products.

In addition, GEO MERCOSUR indicates that countries included in this report have approved or ratified major international agreements, conventions and treaties dealing with environmental issues, known collectively as

Multilateral Environmental Agreements (MEAs), a total of approximately 250 commitments many having trade components. Similarly, MERCOSUR countries and Chile have supported all the major commitments on sustainable development and cooperation, strengthening the base for environmental management in the regional integration process.

## **GEO MERCOSUR Scenarios**

The report identified four scenarios for GEO MERCOSUR through 2030, covering four possible combinations from different balances between the integration process and environmental management.

Scenario 1: A common path towards sustainability. In this case, regional integration and environmental management are strengthened. The environmental issue has been integrated to the first level of MERCOSUR discourse and policy objectives. The “Common Market” is consolidated and there is progress towards a union of countries, establishing supranationality and a stronger and operative regional institutionality.

Scenario 2: Integration without ecology. The integration process advances substantially here, but without strengthening environmental management. Therefore, members of the block will improve coordination, common policies in certain key sectors will be generated but the environmental topic will decidedly not be incorporated at this level. Furthermore, integration advances particularly at the trade and productive levels, emphasizing export patterns.

Scenario 3: Environmental improvements without regional articulation. In this scenario, regional integration is reduced and weakened but environmental management is improved in each country and at the regional level. Problems within the block increase and countries have different positions, both regionally and internationally. The idea of a “community” is undermined and a “union” of countries does not progress.

Scenario 4: Regional unsustainability. Regional integration does not progress, neither does environmental management; to the contrary, it weakens. This is a situation leading to unsustainability conditions, both nationally and regionally and thus environmental policy is set aside. Impacts on the environment persist or increase. Primary product exports are maintained or increased and for this reason the agricultural frontier expands over wildlife areas; biodiversity is lost; soil and water is degraded; and contamination problems are evident.

## **Options for Action**

Finally, GEO MERCOSUR offers 16 areas where action could be taken, based on the report’s main findings. Among the lines of action are the following:

- To delve further into incorporating the environmental dimension into regional integration. The Sixth MERCOSUR Working Sub-Group for Environment (SGT-6) offers a privileged space to this end and its role and dynamics should be strengthened. International experience signals promotion of the environmental topic at the highest MERCOSUR decision-making levels.
- Biodiversity conservation. Efforts to guarantee protection of the ecological patrimony should be stepped up in the countries considered in this report. Shared ecoregions are potentially very useful to build networks of protected areas, established through protected corridors connecting various zones.

- Shared areas and resources. In the regional integration context, one of the most important tasks is how to manage shared resources, such as rivers and lakes, aquifers, ice fields, and others. Water resources are emerging more and more as an issue that needs to be tackled with a regional perspective.
- Exports and environment. Opportunities or restrictions resulting from environmental measures on trade competitiveness should be analyzed. This includes both removing unjustified commercial measures from the trade point of view and the need for restrictions to protect the environment and health.
- Asymmetries, harmonization and articulation. Environmental demands need to be adjusted to each ecosystem's characteristics and each type of environmental impact in the territory being considered in this GEO MERCOSUR study. Differences should be recognized and regionally agreed upon minimums should be the base for progress and regulatory articulation mechanisms.
- Internalization of environmental costs. Basically, prices should better reflect environmental costs in the export and import processes, allowing generation of better signals for public policies.
- Citizen participation. Mechanisms for access to information and participation by the public need to be strengthened in view of the fact that these contribute to legitimize incorporation of environmental measures into the regional integration.

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