

Turning Pollution into Money

Environmental Services and GATS

Summary

Environmental services include wastewater treatment, the management of solid and hazardous waste, nature and landscape protection services and the control of air pollution and noise. Environmental services are now under negotiation at the WTO as part of the talks on the General Agreement on Trade in Services (GATS). More than ten WTO members, including the European Commission, the U.S., Switzerland, Australia and Canada, have submitted a plurilateral request (negotiated among many but not all WTO members) asking more than 20 developing countries—including larger economies such as Brazil, India and China and smaller ones such as Nicaragua, Namibia and Peru—to liberalize environmental services.

This is an overview of the sector and analyzes proposals now under negotiation. Several analyses on GATS and water have been published; the focus here is on other environmental services, in particular solid and hazardous waste management. WTO members negotiating environmental services deregulation should be cautious, not least because few countries have regulatory mechanisms in place to protect the public interest.

The global market for environmental services and the private sector

Environmental services, especially wastewater treatment and waste management, were traditionally provided by the public sector. Since the 1980s, however, a general trend towards deregulation and privatization of public services has given private companies an increasing role. Furthermore, unsustainable production methods and models of consumption leading to pollution and environmental damage have created a new market for technologies and services to control the damage done. Pollution has created a profitable sector to deal with its consequences.

Table 1. Size of the global environmental services industry by segment

Service	U.S. \$ billion in 2000
Solid Waste Management	112.7
Hazardous Waste Management	17.1
Wastewater treatment	74.1
Consulting and engineering	29.2
Other	30.4
Total	263.5

Ferrier, G. in UNCTAD, *Energy and Environmental Services, Negotiating Objectives and Development Priorities*, UNCTAD/DITC/TNCD/2003/3

In 2000, 90 percent of the environmental industry's total earnings¹ were generated in developed countries. But the biggest growth is expected to take place in developing countries, especially China, whose environmental market¹ value today is an estimated US\$32 billion, more than all Asia excluding Japan in 2000.²

Unlike the water sector, the market for solid waste management (e.g., collection and disposal of household waste, non-hazardous industrial waste, or from construction and demolition) in most countries is still characterized by small- and medium-sized

companies. However, company size varies in specific subsectors: recycling is typically undertaken by small companies while incineration is operated by larger ones. In many subsectors, market concentration is increasing, especially through investments by large public-utility companies (such as energy or water).

Waste management in developing countries

Many cities in developing countries are characterized by low coverage of solid waste management services; pollution from uncontrolled dumping; under-resourced and inefficient public services; chaotic or unregulated private-sector participation; and a lack of solid waste management infrastructure.³ Poor areas rely on informal waste collection, if there is service at all. For example, only about 25 percent of Nairobi's solid waste is collected.⁴ Uncollected waste is often disposed of in unregulated and unsafe conditions.

At the same time, different types of more or less problematic waste are exported from industrialized countries to be recycled or deposited in developing countries. The Basel Convention on Trade in Hazardous Waste, in place since the mid 1990s, effectively bans the export of certain types of hazardous waste from OECD countries. However, there are important omissions, including electronic waste and pollution generated by shipwrecks, both of which pose serious environmental and health risks. In the 1990s significant amounts of waste plastic packages from Germany, that were supposed to be recycled in Germany, were found on waste sites in Indonesia.⁵

GATS request on environmental services

Definitions of services in GATS refer to the provisional version of the UN's Central Product Classification (CPC). Following this classification, the plurilateral request covers all subsectors defined in the CPC.

Table 2. CPC classification of environmental services⁶

Service classification	Description
Sewage services	Wastewater management, operation of pipes and plants
Refuse disposal services	Solid and hazardous waste collection and disposal
Sanitation services	Outdoor sweeping and snow and ice clearing
Cleaning services of exhaust gases	Emission monitoring and control
Noise abatement services	Noise pollution monitoring and control
Nature and landscape protection services	Monitoring and protection of ecological systems
Other	E.g., monitoring of acid rain

Even though collecting, purifying and distributing natural water is excluded explicitly from CPC classification and the plurilateral request, many other water-related issues are still part of the GATS talks.⁷ For all subsectors above, full commitments are requested for modes 1 (cross-border supply of a service) and 2 (a foreign company or individual buying services abroad). In mode 4 (cross-border labor movement), commitments are requested to allow temporary movement of specialists. The U.S. is a recipient of the mode 4 request.

Environmental services are predominantly supplied via mode 3 (establishment of commercial presence in another country). For mode 3, the request asks only for “ambitious” commitments, especially to remove barriers such as foreign ownership limitations and joint ventures. In countries where public authorities grant private companies a (temporary) monopoly to supply an environmental service (e.g., waste collection in a certain area), the countries asking for liberalization commitments request that “foreign suppliers should be able to participate in the supply of the service.” This implies that foreign companies would be allowed to tender for monopoly contracts. The request excludes environmental services “purchased for governmental purposes and not with a view to commercial resale.” This would include, for example, cleaning public schools by a private company. The boundary between granting a monopoly for public services and procuring that service by governments is not yet well-established, however.⁸ The request’s commitment to liberalize may therefore affect public procurement of environmental services.

Possible impacts on environmental policies

In making the plurilateral request, WTO members emphasized that liberalization “will not impair the ability of governments to impose performance and quality controls... and ensure that service suppliers are fully qualified and carry out their tasks in an environmentally sound manner.” This may provide some security that improved environmental standards will not be legally challenged in the WTO, especially if countries environmental service commitments include an explicit statement reserving

rights to enhance environmental standards in their schedules. The outcome of negotiations on domestic regulation will also be vital if the right of countries to regulate their services sectors in the future, over and above trade concerns, is to be protected.

However, full liberalization in environmental services may de facto result in political and economic constraints on domestic regulation. Full market access in solid waste management, as one example, will make it more difficult for public authorities to limit the number and capacity of waste incinerators a foreign investor can build and operate. Experience in Germany has shown that massive investments in incineration can create an interest in maintaining high levels of waste “supply” and make operators resistant to more environmentally friendly options, such as avoiding waste or recycling it.⁹ Expanded incineration capacity may also create incentives to import waste, a specific concern in the case of hazardous waste. The Basel Convention only bans hazardous waste exports from OECD countries. Companies in more industrialized developing countries may consider this an economically interesting option.

At the same time, there are limits to contributions private companies can make to solving the waste management problems of developing countries’ urban poor—at least for those who cannot afford cost-covering waste management fees. Private companies are not interested in providing access to quality services for all, as water and energy service liberalization in developing countries demonstrated. All too often, prices increased, access decreased and quality became poorer. Given tight public budgets, it may be more effective to use public funds to upgrade community-based waste collection schemes, which also have greater potential to maintain and improve informal sector employment.¹⁰

Overall, the definition of environmental services employed in GATS contains the risk of putting too much emphasis on “end-of-the-pipe” solutions to environmental problems. It is probably only a question of time until a more concentrated market emerges. History suggests that the emergence of such powerful interest groups would create barriers to development measures that cut pollution at the source—in order to generate demand for their services.

References

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Written by Tobias Reichert

IATP Trade and Global Governance Program