

## *Introduction*

The expansion of trade in the continental Africa and the increasing integration of global value chains raise questions about how trade and the environment (water resources) interact with each other. What are the effects of trade on the environment? And inversely, how can a changing natural environment (e.g. climate change impact) modify trade patterns? Is trade liberalization good or bad for the environment? What are the short term and long term consequences and can an optimal combination of trade and environment policies harness the benefits of trade while minimizing environmental costs?

Economic growth resulting from trade expansion can have an obvious direct impact on the environment and water resources by increasing pollution or degrading natural/water resources. In addition, trade liberalization may lead to specialization in pollution-intensive activities in some countries if environmental policy stringency differs across countries – the so-called pollution haven hypothesis. However, increased trade can in turn, by supporting economic growth, development, and social welfare, contribute to a greater capacity to manage the water resources/environment more effectively. More importantly, open markets can improve access to new technologies that make local production processes more efficient by diminishing the use of inputs such as energy, water, and other environmentally harmful substances. Similarly, trade and investment liberalization can provide firms with incentives to adopt more stringent environmental standards. As a country becomes more integrated within the world economy, its export sector becomes more exposed to environmental requirements imposed by the leading importers. Changes needed to meet these requirements, in turn, flow backwards along the supply chain, stimulating the use of cleaner production processes and technologies.

## *Impact of AfCFTAs*

Free Trade Agreements generate ample opportunity for enhancing environmentally sustainable development. Such agreements usually include articles on cooperation to develop agriculture, irrigation, water resources, watershed management etc among countries committed to the FTAs. Fresh water resources in Africa such as the Nile, Lake Victoria, Niger wetlands, Congo river, the Orange Senque etc. will of priority in the FTAs while promoting trade across the countries sharing these resources. Among the items traded among African countries, agricultural products constitute significant proportions. If the produce is more than what could be internally consumed, then it will be selected for trading. African countries such as Rwanda invest on strategic crops such as coffee and tea for export which may bring much needed hard currency. These crops may require irrigation which interfere with the water share of riparian countries. Hence, the FTAs include articles on such issues to curb looming crisis over water use.

Water transfer project such as between Lesotho and South Africa could benefit quite hugely from free trade agreements. The development of Katse and Mohale is a classic example of water trade between Lesotho and South Africa which has now extended to Botswana. Better deals among the countries could be sealed if the agreements are arranged within an FTA framework. In case disputes arise among two countries, the third parties could intervene to ratify the issue.

Development costs of large-scale transboundary water resources projects could be better financed under FTA framework. Access to financing will be improved. The construction cost of Katse dam was financed by South Africa while it is constructed in Lesotho. Currently, Polihali dam is also under consideration with financing from South Africa. This practice could be scaled up to include the as many member countries as possible which have already signed the FTA.

*Possible articles for inclusion under AfCFTA*

A chapter on cooperation shall include a detailed article on agricultural cooperation, which aims to strengthen institutional capabilities, develop new technologies and transfer knowledge. This covers several specific environmental issues, including reducing the environmental impact of livestock production, adaptation and mitigation of climate change, sustainable land management, cleaner agricultural processes, biodiversity, biotechnology and bio-safety, and sustainable management of fisheries and aquaculture.

The Protocol on Environment and Natural Resources Management shall commit the parties to co-operation in a wide range of areas, including developing a common policy on environmental management, co-ordination of actions for the protection and conservation of the environment and natural resources, the common policies on management of toxic chemicals and hazardous wastes, protecting critical ecosystems, research, development and information exchange on cleaner production technologies, capacity building, and environmental impact assessments and audits. Other areas of environmental cooperation include management of transboundary resources, biodiversity, forests, wildlife, water resources, wetlands, coastal and marine resources, fisheries, genetic resources, minerals, energy, mountain ecosystems, soil and land use management, rangelands, combating desertification, climate change, protection of the ozone layer, biosafety, biotechnology, wastes and hazardous wastes, pollution control, environmental standards and environmental disaster management. The Treaty establishes a Sectoral Committee on Environment and Natural Resources to oversee implementation.

The agreement includes a chapter on natural resources and environment, covering water resources and other natural assets, environment (including biodiversity) and enhancing the linkages between trade and environment. Areas of cooperation on trade-related environmental policies cover protection, restoration and conservation of environment and biodiversity, including flora, fauna, microbial genetic resources and their ecosystems, the development of new industries related to the environment, action to reduce environmental degradation and combating desertification. The Parties agree to cooperate, including by facilitating support, in the implementation of international environmental agreements, conventions and treaties, biodiversity, forestry and wildlife resources, mitigation of natural disasters, prevention of environmental disasters and the loss of biodiversity, protection and management of coastal and marine resources and indigenous biological resources, ecolabelling, waste management and disposal of industrial and toxic wastes, and sustainable management of forests.

Environmental provisions in a chapter on fisheries establishes cooperation on monitoring environmental, economic and social impacts, environmental protection, and measures to ensure that fish trade supports environmental conservation, safeguards against stocks depletion and the maintenance of biodiversity. Other areas of cooperation include mainstreaming of environmental

issues into trade and development, with particular emphasis on natural resources, including water resources and biodiversity. Cooperation on industrial development includes fostering self-sustainable and balanced growth, considering environmental protection and sustainable development. Cooperation on mining and minerals includes promoting environmentally friendly technologies.

#### *Institutional arrangement*

Effective environmental policies and institutional frameworks are needed at the local, regional, national, and international levels. The impact of trade liberalization on a country's welfare depends on whether appropriate environmental policies are in place within the country in question (e.g. correctly pricing exhaustible environmental resources). Stringent environmental policies are compatible with an open trade regime as they create markets for environmental goods that can subsequently be exported to countries that follow suit on environmental standards – the so-called first-mover advantage. This is especially true for complex technologies such as renewable energies.

The environmental protocols of the AfCFTA require administrative arrangements for their implementation. The protocol establishes a Sectoral Committee, with designated National Focal Points responsible for implementation. These are supported by a Sectoral Council, a Coordination Committee, a Sectoral Committee, a Secretariat and National Focal Points. The Focal Points are responsible for coordinating national initiatives and sharing information with the responsible organization and other stakeholders.

#### *Knowledge sharing among member countries*

AfCFTA paves an easier way to access data and documents on water resources for better management as most of the share water courses cross many of the member countries. Efforts are already underway through the establishment of River Basin Organizations. Moreover, exchange of expertise could also be accelerated such as the deployment of Arab Contractors from Egypt to build a hydropower stations in Tanzania. Decision support system development for water resources management is currently widely developed in the River Basin Organizations and AfCFTA could bring in the trade and environment issues to the Decisions support systems. This could increase the marketability of agricultural produce, energy, and water supply among member countries.

The inclusion of environmental provisions in bilateral and regional trade agreements has also helped harmonize environmental regulations between developed and developing countries. More advanced economies can provide resources and institutions for capacity building and can encourage less-developed partners to strengthen environmental regulations. AfCFTA should address many issues on trade and environment such as environment and regional trade agreements (RTAs) the drivers of environmental provisions in RTAs, as well as the stringency of environmental policies as a driver for trade in goods in environmental goods and services. AfCFTA should develop a set of policy indicators on trade and environment to help monitor progress towards more policy coherence, and to identify policy priorities at the intersection of trade and environment.

### *AfCFTA and climate change*

Direct consequences of climate change on trade could come from more frequent extreme weather events and rising sea levels. Supply, transport and distribution chains infrastructure are likely to become more vulnerable to disruptions due to climate change. Maritime shipping, which accounts for around 80% of global trade by volume, could experience negative consequences, for instance from more frequent port closures due to extreme events. More importantly, climate change is expected to decrease the productivity of all production factors (i.e. labor, capital and land), which will ultimately result in output losses and a decrease in the volume of global trade.

Climate change affects future availability of water resources. In general floods and intensified and dry seasons and are longer. However, the impacts of these changes vary from one country to the other. AfCFTA could be of immense assistance to adapting to these changes through enabling commodity exchanges at reasonable prices.