EUROPEAN COMMISSION SERVICES' POSITION PAPER ON THE SUSTAINABILITY IMPACT ASSESSMENT IN SUPPORT OF NEGOTIATIONS ON THE ENVIRONMENTAL GOODS AGREEMENT (EGA)

OCTOBER 2017

1. Introduction

This paper sets out the European Commission services' response to the findings and recommendations of the Sustainability Impact Assessment (SIA) on the Environmental Goods Agreement (EGA) negotiated between the European Union (EU) and 16 other WTO members (jointly referred to as EGA negotiating parties)\(^1\).

The SIA was commissioned by the European Commission's Directorate General for Trade and was carried out by independent consultancy company Development Solutions Europe Limited (consultant). It was completed in March 2016.

The EGA negotiations were officially launched in July 2014 and by December 2016, when EGA negotiations were paused, 18 technical negotiating rounds had taken place.

SIAs are trade-specific assessments carried out by external consultants to support major trade negotiations. SIAs are designed to provide negotiators and policymakers with an evidence-based ex ante assessment of the potential sustainability impacts that may arise from a proposed trade agreement\(^2\).

SIAs assess how the trade and trade-related provisions of the agreement under negotiation could affect economic, social, human rights, and environmental issues in the EU and in the partner country/ies, but also in other relevant countries, and propose measures to maximise the likely benefits of the agreement or mitigate possible negative impacts. This SIA of the EGA drew on the methodological framework set out in the Commission's Handbook for Sustainability Impact Assessment\(^3\).

This EGA SIA provides an assessment of the potential impacts of EGA on the economy, on social and labour aspects, human rights and the environment, but also on potential impacts on developing countries, in particular the least developed countries.

The EGA SIA involved consultation with a wide consultation of stakeholders, including through two EGA regional workshops (in South East Asia and Latin America (both in September 2015), two meetings with civil society in Brussels (March 2015, February

---

\(^1\) The 14 original WTO members who launched the EGA as a plurilateral agreement were the European Union, Australia, Canada, China, Chinese Taipei, Costa Rica, Hong Kong (China), Japan, New Zealand, Norway, Singapore, South Korea, Switzerland, and the US. Israel joined the negotiations in January 2015 and Turkey and Iceland joined in March 2015.

\(^2\) For more information about the tools the Commission uses to evaluate EU trade policies, please visit: [http://ec.europa.eu/trade/policy/policy-making/analysis/policy-evaluation/](http://ec.europa.eu/trade/policy/policy-making/analysis/policy-evaluation/)

\(^3\) This revised version of the SIA Handbook was published in April 2016 when the final phase of this SIA was well underway. Although the SIA consultants accepted to broadly follow the approach outlined therein, it should be noted that the terms of reference specifying the analytical requirements under which the SIA was produced were based on the previous Handbook.
2016), an on-line questionnaire and interviews. Stakeholders were invited to contact the consultant at any time during the process, with information on the study and contact details available on a dedicated website.

The consultant developed 30 case studies covering the 10 environmental goods product sectors described in point 3 below. These case studies provided material for the consultant to outline trade barriers facing the products in these sectors and the environmental and socio-economic impacts of the EGA.

Case studies were drawn both from current EGA negotiating parties and from some countries which are not. Those from the latter countries demonstrated the potential impacts of joining the EGA for them, particularly for developing countries.

There is no internationally agreed methodology for defining environmental goods. The EGA negotiations followed a “list approach”. As the negotiated list of environmental goods has yet to be agreed, the consultant relied on a list of 54 HS subheadings agreed by APEC, which is the declared starting point of these negotiations, and a list of 153 HS subheadings submitted to the WTO in 2009 by a group of WTO members, this list is called the “Friends of Environmental Goods List” (Friends List).

Taking into account progress made in the negotiations, the consultant considered a combination of these two lists to be a reasonable approximation of goods under discussion in the EGA. The econometric analysis was based on a list close to the negotiation list. The sectoral analysis carried out by the consultant included goods not on these lists, especially products on which they had received feedback from stakeholders.

The final report is publicly available on DG Trade's website:


2. Overview of the consultant's findings

The consultant's assessment is that the EGA would have significant positive economic, environmental and socio-economic impacts and has the potential to contribute to the achievement of many, if not all, of the Sustainable Development Goals (SDGs) set out in the UN 2030 Agenda. The conclusion of the EGA between the current 17 EGA negotiating parties would lead to an increase in trade in environmental goods, reduction in their price and a reduction of CO2 emissions.

The consultant concluded that at macro level through the removal of tariffs, and working also toward the removal of non-tariff barriers to environmental goods, EGA members can improve market conditions (reduce costs and increase the efficiency of the market) for their domestic producers of environmental goods and services. Provided that reductions in prices are passed onto consumers the direct result would be that environmental technologies become more accessible in countries which join the EGA.

The consultant suggests that the magnitude of the identified impacts could significantly increase if several other countries were to participate in the EGA, and ultimately if it were multilateralised. The EGA could be an inspiration for a broader environmental trade agreement covering more areas and participants in the future.
2.1 Economic impacts

The EGA would have a positive impact in volumes of global trade flows of environmental goods, a small but significant impact on the price of environmental goods and also of energy, thus making clean technologies more cost competitive. The EGA would also have positive impact in furthering trend of job creation in environmental goods sectors.

The econometric modelling projected up to a EUR 21 billion increase in the value of trade as a result of the successful conclusion of the EGA. The consultant points however that since applied tariffs in many EGA negotiating parties are relatively low, the potential effects of the EGA between currently EGA negotiating partners may be reduced at the macro level.

On the other hand the EGA could have significant positive effects at the micro level in certain countries for certain products. Some products on which higher tariffs are applied increase the prices of environmental projects in some of these countries and thus may distort the market

Small and medium sized enterprises (SMEs) would derive the greatest benefit from the EGA.

The consultant's analysis shows also that there would be significant benefits for developing nations in joining the EGA. By reducing their tariff and non-tariff barriers, developing nations could attract imports and inward investment, which would result in improved access to environmental technologies, and improve environmental protection. This would also contribute to local job creation.

2.2 Environmental impacts

The EGA has the potential to positively impacting environmental protection, climate change mitigation efforts, greening of the economy (green growth, export opportunities and green jobs), resource efficiency, green urbanisation, ocean governance, circular economy and sustainable development (contribution to SGDs) objectives.

In particular the EGA could play a significant role in facilitating the implementation of national environmental policies and multilateral environmental agreements (MEAs) such as the Paris Agreement concluded in December 2015 under the UNFCCC.

The CO2 modelling projects a modest potential reduction of CO2 emissions resulting from the EGA of almost 10 million tonnes of CO2 by 2030 compared to the baseline scenario, and a reduction of CO2 intensity of GDP by 0.02 per cent by 2030.

The consultant points however that environmental impacts would depend on current level of tariffs in a country and whether countries choose to join the agreement.

2.3 Social impacts

The SIA projects social effects of the EGA to be mainly positive.
The EGA can positively impact on a range of human rights issues, on better implementation of the CSR strategies, on gender issues and on access to decent work, in particular in Developing Countries (DCs) and Least Developing Countries (LDCs). Social impacts of the EGA are an important consideration due to the linkages between environmental, social and economic factors and the interrelated nature of the three pillars of sustainability.

Yet, these effects are estimated to be mainly indirect and related to the anticipated changes in the trade of various goods rather than being direct impacts resulting from the provisions of the EGA itself. Direct impacts are identified only for a narrow range of issues, and would be confined to the local level directly impacted by relevant environmental projects.

An example of positive human rights impacts are small solar lights, or renewable energy projects that bring electricity to rural areas. Increasing access to lighting can improve the levels of education and social welfare in these communities. Such technology diffusion can also increase access to the internet, which can facilitate people’s right to freedom of expression and information.

Some negative human rights impacts were raised by stakeholders, associated with large infrastructure projects and hydroelectric power projects. Yet, the consultant’s analysis suggests that while these impacts can be acute at the local level, the EGA is unlikely to contribute to these issues and that the causes of these human rights issues are not tied to the liberalisation of trade in environmental goods.

The EGA could have a positive impact on gender issues in DCs and LDCs by removing tariff barriers and assist in capacity building efforts targeted at women. A shift towards a greener economy has the potential to create millions of new jobs, especially in the Renewable Energy sector. However a lack of gender-differentiated data makes it hard to assess the potential impact differentiated by gender.

3. Opportunities and challenges for countries in joining the EGA negotiations

The consultant identified the following benefits of joining EGA:

— Liberalisation of trade, and the resulting growth in trade of EGs will contribute to improved economic opportunities by attracting imports and boosting exports.
— The lowering of trade barriers can lead to countries having increased opportunities to enter and move up global value chains (GVCs).
— Countries pursuing green energy policies will benefit from improved uptake of relevant technologies.
— Signatories may see positive social impacts at the local level with increased opportunities for employment.
— Supporting implementation of the UNFCCC Paris Agreement and the shared goal of limiting global warming to 2°C
— Reduced costs and increased economic efficiency for local businesses through increased adoption of energy efficiency technologies
— Increased technology transfer opportunities
— Supporting environmental remediation, ocean governance, air pollution control and many other environmental issues.
The consultant also identified some challenges of joining EGA:

— Given the complex and highly interrelated nature of trade flows, impacts will not be consistent for all regions and as with any changes in trade flows, some groups may face new challenges in the short term.
— Potential losses to tax revenue from reduced Customs duties.
— Regulatory capacity building may be needed to help developing countries to fully take advantage of the agreement

4. Commission services' views on the consultant’s findings

The Commission services agree with the consultant's assessment that the EGA would have significant positive economic, environmental and social impact and has the potential to facilitate many of the SDGs set out in the UN 2030 Agenda.

The benefits of the EGA would apply to the whole WTO membership. More generally, the successful conclusion of the EGA would benefit the world trade and systemically strengthen the WTO. However, only WTO Members who join the EGA would take advantage of the full benefits of the agreement.

The EGA provides important benefits and opportunities for developed and developing countries alike - both from a climate and economic perspective. EGA membership contributes to meeting developmental objectives as it would enhance the attractiveness of domestic conditions for trade and investment.

The economic benefits would increase with the enlarged EGA membership, and with the incorporation of provisions removing non-tariff barriers to trade (NTBs) and barriers to trade in enabling services, subsidies and LCRs.

5. Commission services' views on the consultant's policy recommendations

This section highlights the consultant's main recommendations, as presented in the EGA SIA, and provides the Commission services' response.

a. The EGA SIA recommends achieving full tariff elimination in order to maximise the economic and commercial effects from the EGA.

The Commission services confirm that the EU objectives in the EGA negotiations are fully in line with this recommendation.

b. The EGA SIA recommends establishing an effective permanent negotiation mechanism which can deliver annual or bi-annual suggestions for further tariff liberalisation for new innovative environmental products, deal with definitional issues and/or situations where there is a good case that a component which has dual use character is a core component for the environmental end-product to implement the “living agreement”.

The Commission services confirm that the EU objectives in the EGA negotiations are fully in line with this recommendation. A future oriented EGA should have the "living agreement" mechanism to allow for the incorporation, as appropriate, of additional environmental goods in order to respond to rapid technological
developments in the environmental sector, pressing environmental challenges, policy and regulatory developments, market developments, shifts in trade, changes to the HS nomenclature or experience gained in applying the EGA.

c. The EGA SIA recommends establishing a "roadmap" for the development of the EGA in terms of further removal tariff and non-tariff barriers (NTBs) to trade, including barriers to trade in enabling services, subsidies and LCRs that still need to be addressed.

The Commission services confirm that in line with this recommendation the EU objectives in the EGA negotiations are to develop a work program to: i) identify and review the relevant NTBs that are applicable to and may impact trade in the environmental goods covered by the EGA; and ii) to identify services related to environmental goods, review and identify barriers to trade in such services, and consider ways to facilitate trade in such services related to environmental goods.

d. The EGA SIA recommends working to eliminate NTBs that are detrimental to trade in environmental goods, while maintaining high environmental standards that encourage the development of sustainable technologies, as well as harmonising international environmental standards.

The Commission services confirm that in line with this recommendation the EU objectives in the EGA negotiations are to create a work program on NTBs (see point c above).

e. The EGA SIA recommends the inclusion of the relevant enabling services and the modes of service supply to products being liberalised under the EGA, and their liberalisation. The consultant defines "enabling services" as those services that may have an environmental end-use in that when they accompany the sale of an environmental good they are indispensable for the sale of said good; however these services in of themselves are not classified as environmental under Services Sectoral Classification List. The consultant points that the companies buying environmental goods are increasingly adding installation and testing into the same package, but barriers in trade in services, such as data transfer, establishment of in country operations and moving people across borders, can often be costly and complex. It can thus lead to inefficiencies and lost trade opportunities.

The Commission services confirm that the EU objectives in the EGA negotiations are fully in line with this recommendation.

f. The EGA SIA recommends extending phase-in periods for tariff reduction for developing countries to encourage domestic competition and domestically address various types of anticompetitive market distortions while supporting domestic industries by giving them time.

The Commission services confirm that the EU objectives in the EGA negotiations are not in line with this recommendation.

The Commission services do not see the link between extending phase-in periods for tariff reduction for developing countries and encouragement of domestic competition. Nor the Commission services see such link with developing countries' incentives to
domestically address anticompetitive market distortions while supporting domestic industries by giving them time.

The Commission services emphasize that the outcome of EGA negotiations needs to balance between achieving immediate environmental and economic benefits of liberalisation of environmental goods on one hand and economic interests of those who would benefit from longer phase in periods.

g. The EGA SIA recommends including in the EGA a commitment to the reduction of subsidies for conventional energy, what would be in line with and would contribute to the environmental objectives of the EGA. Support for this idea could be in the form of an endorsement of the recent communiqué launched by the Friends of Fossil Fuel Subsidy Reform, together with France and the United States, calling on the international community to increase efforts to phase out subsidies to fossil fuels.

The Commission services note that the EU objectives in the EGA negotiations are not in line with this recommendation. The Commission services consider that the EGA is not the right instrument to address subsidies for conventional energy.

6. Conclusion

The SIA confirmed the potential positive economic, environmental social and human rights impacts that the EGA could have. The study has proposed a number of policy measures to maximise the benefits of the EGA while mitigating potential risks. The Commission services have taken note of the findings and recommendations of the SIA and, as described above, they will be taken into account whenever relevant during the EGA negotiating process.

*******