

Newsletter

Newsletter of the European Union's Sustainability Impact Assessment Programme for Trade Negotiations and Agreements



Sustainability impact assessment of WTO negotiations says better policy integration is essential

The SIA programme

As part of its commitment to sustainable development in the EU and globally, the European Commission has, since 1999, been undertaking a series of Sustainability Impact Assessments of multilateral (WTO) and regional trade agreements. The SIA programme combines extensive public consultation with technical analyses, to evaluate the potential social, economic and environmental effects of trade liberalisation.

The goal of the studies is to identify measures which may be taken by the EU and its trading partners to maximise benefits and avoid or minimise potentially adverse effects.

An overview impact assessment of WTO negotiations finds that the Millennium Development Goals are unlikely to be met unless policy making is better integrated in the EU, in its trading partners, and between the WTO and other international institutions. The assessment, carried out for the EC, recommends closer cooperation between WTO bodies and other multilateral organisations. It also says that greater international support is needed for developing countries' efforts to integrate trade policy with strategies for economic development, social equity and environmental sustainability.

The findings are part of a programme of assessments intended to help negotiators and policy makers achieve outcomes that are consistent with, and promote, sustainable development. The programme also includes detailed sectoral studies, three of which are now in progress, covering **agriculture, forest products and distribution services**.

The European Commission's Sustainability Impact Assessment programme for WTO negotiations began in 1999, in preparation for the WTO Ministerial Conference in Seattle. Following the Doha conference of 2001, a second preliminary overview study was carried out for the Doha agenda, together with a number of detailed studies of individual sectors.

Overview SIA of the Doha agenda

The preliminary overview SIA identified the potential major impacts of all the trade measures covered by the Doha agenda, taking into account how they may affect each other.

The findings show that both positive and negative impacts can be expected, and give an initial indication of ways in which governments can respond, and the

international community can support developing and least developed countries in the integration of trade policy with development strategies covering all aspects of sustainable development. The SIA report argues that, to gain from multilateral trade liberalisation, a country needs well-developed markets and regulatory institutions, and a stable and predictable policy framework. Without these, it is suggested that sustainable



development is unlikely to flow from trade liberalisation. It is also highly desirable to involve stakeholders in the policy formulation process. Trade policy inevitably involves trade-offs between economic, environmental and social issues. Not only do such issues affect different people in different ways, there will be conflict about how impacts should be prioritised. To resolve such conflicts, negotiations need to be informed by the different stakeholders' perceptions.

Trade cuts across many other areas of policy, and so policy integration is crucial at both national and international level. One of the principal findings of the overview SIA is that, to meet the Millennium Development Goals, policy making needs to be better integrated, in the EU, in its trading partners, and between the WTO and other institutions of international governance.

The overview study identified several economic sectors as potential candidates for more detailed SIA studies. Following consultation on the findings, agriculture, forest products and distribution services were selected for the current set of sectoral SIAs.

Sectoral SIA studies

Studies already completed have covered major food crops, environmental services, competition policy, and market access for textiles and clothing, pharmaceuticals and non-ferrous metals. As one of the 'Singapore issues', competition policy is no longer part of the WTO negotiation agenda, but it remains a significant factor in trade liberalisation issues. Reports on all these studies are available through the project website.

Inception reports and mid-term reports are also available on the project website for the three sectoral studies currently in progress, on agriculture, forest products and distribution services. These reports describe the consultations and analyses to date, and give preliminary findings. **Comments and suggestions are invited from all interested parties**, and are expected to

The SIA study teams for the WTO agenda

The SIA of the major food crops sector was carried out by Stockholm Environment Institute, Sweden, following a methodology developed at the University of Manchester, UK.

The other SIA studies described in this Newsletter are part of a programme led by the University of Manchester, in association with other institutions with specialist expertise in the sectors being studied:

- BMT Cordah (environmental services)
- British Institute of International and Comparative Law (competition)
- Deloitte & Touche Sustainable Emerging Markets (environment)
- Indufor Oy (forestry)
- International Trade and Services Policy (distribution services)
- Overseas Development Institute (market access and agriculture)
- Westlake Associates (environmental services)
- World Trade Institute (competition)

The programme is led by the Impact Assessment Research Centre at the Institute for Development Policy and Management (IDPM), in the University of Manchester's School of Environment and Development.

make a significant contribution to completing the studies and preparing their recommendations.

Agriculture

WTO negotiations on liberalising trade in agriculture focus on three main components: reduction of tariff and non tariff barriers; phasing out of export subsidies; substantial reductions of domestic support that distorts trade.

One of the key impacts identified in the major food crops study and in the preliminary overview SIA is a general rise in world market prices, resulting primarily from reductions in support for domestic agriculture in the EU and US. While these reforms lead to an overall economic benefit in most countries, potential losses are expected in some areas such as the Middle East and North Africa. In some countries price rises may impact negatively on the urban poor. Trends away from traditional agriculture towards commercial farming may be accelerated, with a potential increase in rural poverty, and more rapid migration to cities. Greater reliance on international trade may increase susceptibility to price fluctuations, with adverse impacts on food security in

some developing countries. Impacts on women could be particularly severe if areas in which they tend to work, such as traditional farming, are curtailed. Where agricultural production increases, pollution may increase. More international trade will mean higher environmental impacts from transport, unless this is curbed by parallel measures which improve transport efficiency.

The current sectoral SIA for agriculture focuses on six main product areas: wheat (based on the major food crops SIA), rice, beef, sugar, cotton and green vegetables. The selection includes products affected by reforms to export and domestic support, including some that are important either as imports or exports to developing and least developed countries. Some of the chosen products are relevant to health and food safety issues, to niche markets and to the concerns of the poorest countries.

Six broad country groupings are covered in the study. Developed countries are considered in two groups – EU and non-EU. For developing countries four groups are distinguished, for each of which one country has been selected as a case study. These are:

- Countries that are significant net exporters for a wide range of products, where the main effects arise from greater access to foreign markets. Brazil is the chosen example.
- Countries with a relatively highly protected agricultural sector, involved in both export and import. India is the example.
- Least developed countries, which typically export cash crops and import food grain. Tanzania is the case study.
- Low-income developing countries that are not classified as least developed, but whose agricultural sectors are quite similar. They may

Scenarios for agricultural trade liberalisation

The agricultural sector study takes full implementation of the Uruguay Round as its *baseline scenario*, along with current prices and patterns of trade and production. It compares this with a *further liberalisation scenario* which makes the following assumptions for each component of the Doha agenda.

- For *tariff reductions* on imports, a percentage reduction is assumed. This is greatest for developed countries, which are expected to end up with the greatest tariff reductions. In contrast, least developed countries are assumed to make no such commitments. The pattern of tariff reductions applied is tailored to the type of country and product being considered.
- For *reductions in export support* it is assumed that developed countries eliminate all forms of export support, that developing countries make more moderate commitments, and that least developed countries make no changes at all.
- For *reductions in domestic support* it is assumed that developed countries make reductions of between 40% and 60% of their current trade-distorting domestic support, that developing countries make smaller reductions, and that again there is no change in least developed countries.

be expected to reduce tariffs by more than the least developed, and compete with the more preferentially treated least developed countries in their export markets. Ghana is the case study example.

Where possible the study will be linked to those on distribution services and forestry. Distribution services are particularly relevant as agricultural products are processed and traded within distribution chains. Links between agriculture and forestry may arise in particular for countries where expanding agriculture can be at the expense of depleting forests.

Distribution Services

The service sector is one of the fastest growing components of the world economy, and is therefore of particular interest in trade negotiations. The preliminary overview SIA looked at all service industries covered by the WTO negotiations, and a detailed sectoral study has been carried out for environmental services. An SIA of distribution services is currently under way.

The distribution market within the EU is highly developed and largely open, and is unlikely to be significantly affected by the WTO proposals. Liberalisation of distribution services is however likely to help EU distribution undertakings strengthen their position abroad, with potentially beneficial results for the EU economy. Similar considerations apply to other high income countries. The Distribution Services study therefore focuses primarily on the effects in developing countries.

The study reflects a large body of published work which suggests that liberalisation of trade in distribution services can have a positive impact on the long run rate of economic growth, can lead to technology transfer via inward investment, and encourage enhanced efficiency and competition. At the same time it may entail significant economic, social and structural consequences in the countries concerned, associated in particular with loss of employment in traditional distribution outlets. In order to maximise beneficial impacts and minimise adverse ones, liberalisation needs to be accompanied by suitable national systems of regulation.

Detailed case studies for distribution services are being undertaken in three developing countries – Brazil, Kenya and Malaysia.

The assessment takes account of standards which impact directly not only on what goods can be marketed, but also on their distribution and on working practices and conditions in distribution outlets, and also in associated transport undertakings. Another important consideration is how far sustainability issues are taken into account in international policy and in international businesses' commitments

to corporate social responsibility. The current negotiations are not expected to directly affect this, but voluntary codes may be of major importance in the mitigation and enhancement of potential impacts in the distribution sector.

Forestry

A detailed study of the potential impacts of the Doha negotiations on forestry is now under way. The study uses a baseline scenario which assumes that the Uruguay agreements on tariffs for forest products are fully implemented, and a further liberalisation scenario which, for analytical purposes, assumes a zero tariff rate. The study also examines potential changes in non-tariff measures (NTMs). One of the tasks of the ongoing Doha negotiations is to define and clarify NTMs more clearly. Some of the NTMs, such as measures to control illegal trade, promotion of forest certification and eco-labelling, are identified by the study as possible mitigation and enhancement measures.

Impacts can be expected to vary considerably between countries. They may be positive, negative or mixed. Liberalisation appears to benefit forest-export-orientated developed countries more than developing countries. However those with considerable forest resources, such as Indonesia, Malaysia, Brazil and Chile, and those with potential for fast-growing plantation development, should benefit economically. Unless adequate safeguards are adopted, developing countries may also face environmental and social costs.

Agricultural, land clearing and livestock policies can, in some countries, have

more impact on forest sustainability than do forest policies. The study is therefore linked to the parallel SIA on the impacts of agricultural trade liberalisation.

A preliminary conclusion at this stage of the study is that further reduction of tariffs is unlikely to greatly influence the consumption and production of forest products. At the world level, impacts arising from the Doha agenda will be small compared to those from economic growth, population growth and commercial development of forest products. In most contexts, increased trade alone is unlikely to cause significant direct impacts, although it can accentuate negative trends unless appropriate forest governance systems are in place and enforced. Trade liberalisation can help improve forest governance and support movement towards sustainable forest management. Conversely, it can also have a negative impact by boosting illegal activities or expanding the economic harvesting area, without a corresponding increase in the capacity to regulate. Beneficial impacts are more likely to occur and be fairly distributed where forest governance is robust.

The mid-term report presents initial suggestions for a number of mitigation and enhancement measures, and identifies, as a key issue, the timing or phasing of the reforms and support measures. International support may be needed to help strengthen institutions in countries with serious capacity constraints and governance problems. In these cases, it may be beneficial to phase in trade liberalisation over a period of time associated with appropriate capacity development.

Consultation

Consultation is a key part of the SIA process, and many stakeholders have already contributed. Project reports are published on the project website, inviting comments and suggestions for subsequent stages of the studies. Public meetings in Brussels are organised by the Commission to comment on reports and discuss next steps. An Expert Network database for public consultation now includes over 900 contacts, including individuals and organisations from within the European Community, other high income countries, developing and least developed countries.

Comments and suggestions on any aspect of the SIA process are always welcome. Feedback on the reports posted on the project website on the Agriculture, Distribution Services and Forestry studies would be particularly appreciated at this point in time. For example:

- would you suggest any changes to the proposed use of indicators?
- would you suggest any changes to the way results are presented in the final reports?
- do you have any comments on the proposed structure and content of the final reports?
- do you have any suggestions for strengthening stakeholder consultation and dialogue during the rest of the project?
- are there any important sustainability issues not covered in the reports which you would like evaluated in the final stage of the studies?
- do you have any suggestions for other mitigation and enhancement measures?
- are there any key publications not mentioned in the reports, which you would recommend as particularly valuable?

EU, WTO and other trade web sites

http://europa.eu.int/comm/trade/index_en.htm

This is the website of Directorate General Trade of the European Commission, which is in charge of implementing the external trade policy of the European Union. The site includes information about what trade is, who DG Trade are, their work, and other useful tools to help understand the various trade topics. Sections include the EU and the WTO, Sectoral issues, Bilateral trade relations, Respecting the rules, and Harnessing globalisation (which includes a subsection on SIA). The Information Centre has a search facility for the site. Publications, statistics, and a Market access database are all available. There is a latest news section and links to related topics. Access is provided to the Civil Society Dialogue homepage, which enables viewers to participate in meetings and other events (including consultation meetings on the SIA studies).

www.wto.org/

The Documents section includes the full text of all dispute body rulings and WTO legal texts. Introductory materials, progress on negotiations and summaries of work in the relevant committees are to be found under Topics. Or go to Resources for trade-related statistics and WTO publications. There's a good introduction page on trade and environment in the WTO and also a gateway to WTO information on the agenda set by the Doha Ministerial Conference. This covers: the main Doha Declaration, the resulting negotiations, the decision on implementation and resulting work. News, texts, explanations and latest developments can all be found here.

www.unep.ch/etu/etp/index.htm

UNEP's Economics and Trade Branch (ETB) has among its objectives: to enhance understanding of the environmental, social and economic impacts of trade liberalisation and the trade impacts of environmental policies and agreements, and to raise awareness and clarify, for policy and decision-makers, the relationships between trade, environment and development. It also aims to develop and assist countries in the use of assessment tools, enhance their integrating of environmental considerations into macroeconomic policies (including trade policies) strengthen coherence between

Multilateral Environmental Agreements and the World Trade Organisation and enhance the role of the financial services sector in sustainable development. The site offers articles, news and details of events as well as access to press releases, study reports and other publications.

www.unctad.org

The United Nations Conference on Trade and Development (UNCTAD) web site provides information on its programmes on Globalisation and development, International trade and commodities, Investment, Technology and business development, Least developed countries and Project infrastructure. The International trade and commodities section brings together a number of related UNCTAD sites. The digital library of UNCTAD's publications enables access to references to the knowledge generated by the organization through its intergovernmental and expert meetings. There is access to various statistical databases and briefing papers.

www.ictsd.org/

The International Centre for Trade and Sustainable Development (ICTSD) was established in Geneva in September 1996 to contribute to a better understanding of development and environment concerns in the context of international trade. As an independent non-profit and non-governmental organisation, ICTSD engages a broad range of actors in ongoing dialogue about trade and sustainable development. ICTSD facilitates interaction between policy-makers and those outside the system to help trade policy become more supportive of sustainable development. By helping parties increase capacity and become better informed about each other, ICTSD builds bridges between groups with seemingly disparate agendas. The site includes a detailed events calendar and several newsletters. Issue areas provide publications and news on Africa, Agriculture, Environment, Services and Intellectual Property. Papers from Dialogues on Trade and Sustainable Development are available, and there is a Publications section and links to related sites.

www.iisd.org/trade/

The Trade section of the International Institute for Sustainable Development's web site is currently promoting Lessons Learned on Trade and Sustainable Development: Distilling Six Years of

Research from the Trade Knowledge Network (TKN). This book draws on in-country research, thematic research and workshop papers to identify the key issues, and explores in depth what the TKN research has to say about them. The site has a section on the WTO which includes the Doha Round Briefing Series – a set of 13 briefings on the key issues of trade and sustainable development in the Doha Round negotiations. There are links to a number of excellent resources available on the Web for those interested in up-to-date details of the goings on at the WTO, and their implications for sustainable development.

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,pagePK:149018~piPK:149093~theSitePK:239071,00.html>

The Bank's work on trade has two central objectives. At the global level, the Bank advocates changes in the world trading system to make it more supportive of development, especially in the poorest countries and for poor people across the developing world. At the country level, the Bank supports developing countries in their efforts to improve their own policies, institutions and infrastructure (i.e. roads, ports and telecommunications) in order to use trade to help spur growth and reduce poverty. This website has been created as a research, training, and outreach tool for people interested in trade policy and developing countries. A wide range of topics is featured from the trade agenda associated with the WTO negotiations to regional integration and export competitiveness. In addition to the capacity-building activities of the World Bank Institute and the World Bank's Research Group, it provides information on complementary programs.

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