How Much Will the Davos Initiative Help Reduce Trade Barriers in “Green Goods”?

DE MELO, Jaime

Abstract

At its launch in 2001, the Doha Round of trade negotiations was dubbed the round for the “Developing Countries and for the protection of the environment.” Under Doha, World Trade Organization members were mandated to find ways to reduce barriers to trade in environmental goods and to trade in environmental services. Accelerating the reduction of barriers to trade in environment goods and services was expected to result in a triple-win situation for trade, for development and for the environment. For environmental goods, no acceleration in the reduction of most-favored nation (MFN) tariffs for any income group took place during the decade as trends were the same as those for non-environmental products. At the WTO negotiations, countries could not agree on what approach to adopt (list, request-offer or project) for reducing tariffs, let alone for tackling nontariff barriers. Neither could members come to agreement on a list of environmental goods for those that favored the list approach. And for the countries that submitted lists, they never included any tariff peaks, preferring instead to confine their submissions to [...]
How Much Will the Davos Initiative Help Reduce Trade Barriers in “Green Goods”?

By: Jaime de Melo

At its launch in 2001, the Doha Round of trade negotiations was dubbed the round for the “Developing Countries and for the protection of the environment.” Under Doha, World Trade Organization members were mandated to find ways to reduce barriers to trade in environmental goods and to trade in environmental services. Accelerating the reduction of barriers to trade in environment goods and services was expected to result in a triple-win situation for trade, for development and for the environment. For environmental goods, no acceleration in the reduction of most-favored nation (MFN) tariffs for any income group took place during the decade as trends were the same as those for non-environmental products. At the WTO negotiations, countries could not agree on what approach to adopt (list, request-offer or project) for reducing tariffs, let alone for tackling nontariff barriers. Neither could members come to agreement on a list of environmental goods for those that favored the list approach. And for the countries that submitted lists, they never included any tariff peaks, preferring instead to confine their submissions to goods in which they had a comparative advantage.

For environmental services, no agreement was reached on a more appropriate classification than the list that the United Nations provisional central product classification (CPC) used for the General Agreement on Trade in Services (GATS) commitments negotiated during the Uruguay Round. Furthermore, as sectors in the CPC classification system are mutually exclusive, the CPC classification cannot take into account environmental services that fall within the scope of other sectors, such as business, construction and engineering, and education and tourism.

Against this stalemate at the WTO, in September 2012, 20 Asian-Pacific Economic Cooperation members submitted a list of 54 products for which they would lower applied tariff rates to 5 percent or less by end 2015. And now, on January 24, at the Davos meetings, a group of 14 countries including many APEC members plus Costa Rica, the European Union, Norway and Switzerland committed to pursue ‘global free trade’ for environmental goods starting from this APEC list. The joint statement reads that the group is to “build on the ground-breaking commitment to reduce tariffs on the APEC list of environmental goods by the end of 2105 [...] to achieve global free trade in environmental goods”. This plurilateral deal “would take effect once a critical mass of WTO members participates… and we are committed to exploring a broad range of additional products,”
Any step forward out of this decade-long impasse is to be welcomed and any reductions negotiated by this group in the ambit of the WTO will be extended to other non-participating WTO members. But how much significance should we give to this initiative for reaching free trade in green goods? Probably very little.

For environmental goods, not much will be on the negotiation table. First, average applied MFN tariffs for these goods (regardless of the list chosen) are very low, ranging from 3 percent for high-income countries to 8 percent for low-income countries. The situation is similar to the APEC announcement where only 20 percent of tariff lines were above 5 percent and the average applied tariffs across members was less than 3 percent.

Moreover, as in the case of the APEC announcement, it is not yet clear whether tariffs will be reduced on the entire list of HS-6 categories or for individual “ex-outs” (i.e. subheadings at the HS-8 or HS-10 national levels) in which case some countries might find that the product is not sufficiently environmental.

Second, regarding the addition of more goods to the list, if the process during the Doha negotiations is any guide, agreement will be hard to reach (of the six lists submitted by 13 countries resulting in a combined ‘universe’ of 411 products--the so-called ‘WTO list’-- more than two-thirds of the products on this combined list appeared only on one submission list). In addition to the political economy of submissions (countries always avoided putting up products on which they had tariff peaks concentrating instead on goods in which they had a comparative advantage), this lack of overlap across lists reflects the fact that environmental problems are different across countries. As to extending the negotiating group beyond 14 members, while China's participation is welcome, there are no signs that reluctant WTO members like Brazil, India and South Africa will join in.

Regarding non-tariff barriers, whose ad-valorem tariff equivalents are up to 5 times the height of tariffs, they are unlikely to be on the agenda. While some address market failures, many are welfare reducing so they should be part of the agenda. However, it is expected that negotiators will refer these to the WTO’s Technical Barriers to Trade Committee as was the case during the negotiations for the plurilateral Information Technology Agreement.

Next, it is likely that environment services will also be off the agenda as negotiators will hold off taking them on board pending the outcome of the Trade in Services Agreement (TISA) negotiations. This is unfortunate for several reasons. For a start, however imperfectly they are measured, trade costs for trade in services are estimated to be an order of magnitude higher than trade costs for trade in goods and these costs appear to have only fallen slightly over the last decade. These estimates confirm that commitments at the GATS --for those countries that made commitments—just consolidated members’ existing services policies. In addition, for developing countries that did not make commitments at the GATS, liberalization has only occurred as part of North-South regional trade agreements (e.g. the U.S. and the EU with Southern
partners). Although these commitments are likely to be substantial since developing countries had kept services unbound in the GATS, the fact that the classification of environmental services is exclusive under the UN CPC means little progress until the classification is amended to include more sectors as environmental services to take into account the growing public sensitivity toward the environment reflected in the shift from pollution control toward pollution prevention through the adoption of cleaner technologies for production and products.

Finally, for the developing countries that would be the greatest beneficiaries of freer trade in green goods and services, complementarities between trade in environmental goods and trade in environmental services are especially strong. Very often trade in environmental goods involve products and technologies that are packaged in environmental projects that include environmental services, such as wastewater management services, water collection and purification, and recycling. Many environmental projects have a great degree of overlap between the services provided by environmental goods and those provided by an increasingly large array of environmental services that extend beyond those that are classified as environmental services in the current UN CPC list (e.g. business and engineering services, and telecommunications). It is hard to see how this complementarity will be recognized at the WTO as the liberalization of environmental services is negotiated under the GATS while liberalization of goods is negotiated under Non-Agricultural Market Access (NAMA).

Therefore, unless the negotiations extend beyond tariff reductions, it is doubtful that this pledge to work together will be enough for the environment to be taken on board at the WTO.