What to watch for in the negotiations for an Environmental Goods Agreement (EGA)

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Abstract
This July in Geneva, 14 countries launched negotiations to reach free trade in environmental goods (EGs) through an Environmental Good Agreement (EGA) under the umbrella of the World Trade Organization (WTO). For reasons given here, progress on these negotiations is a barometer to watch for those following climate negotiations.

Reference

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THREE REQUIREMENTS FOR A SUCCESSFUL CLIMATE AGREEMENT

To start with, a successful EGA will have to tackle three requirements that have eluded us so far in our quest for a successor to the Kyoto Protocol (KP). First, full participation will have to be promoted (only 14 percent of global CO2 emissions were covered under KP). Second, we need a set-up where countries that are parties to the agreement do actually comply to do what they pledged they would do (via what is now called Monitoring, Reporting and Verification (MRV)). Third, the Treaty will have to incorporate obligations that demand that countries change their behavior substantially. Under KP none was fulfilled.

HOW CREDIBLE ARE THE RECENT
The recent China-US announcement of national targets calling for substantial additional efforts by both is a step in the right direction. With the EU already on board, over 50 percent of global emissions are already covered in what negotiators call Nationally Determined Contributions (NDCs). For many observers, this is an encouraging step towards meeting the Durban Platform (2011) which calls all parties (countries) to be included under a common legal framework.

But how credible is this announcement on the road towards a credible Climate Treaty in Paris next year (and beyond)? Already Attorney Generals in at least a dozen US States with energy companies are opposing climate-change related measures. Surely, strong opposition will also be voiced in China and elsewhere casting doubt on the credibility of these good intentions. The current EGA negotiations are a barometer worth watching. Depending on their ambition, EGA negotiations could be a starting point towards meeting these three requirements as unimpeded trade in Environmental Goods and Services (EGS) is recognized to be a center-piece of the needed mitigation measures to combat climate change.

CAN AN EGA FULFILL THE THREE REQUIREMENTS FOR A SUCCESSFUL CLIMATE TREATY?

Regarding full involvement, if the current participation of 14 countries in these plurilateral negotiations, now covering 86 percent of global trade in EGs, is extended -let’s say to cover 90 percent of trade as it was the case for the Information Technology Agreement, the reductions negotiated at the EGA would be extended to all WTO members, suggesting that this agreement would then be the first global Treaty on climate change (see here).

As to the EGA leading to pledges being fulfilled, National Treatment and
Non-Discrimination applying to WTO members along with acceptance of the WTO dispute settlement procedures largely fulfill this requirement. A successful EGA would also be a step towards reconciling trade and environmentalists concerns.

The issue remains of obligations calling for countries to substantially change their behavior. Reducing tariffs and binding them at negotiated levels certainly qualifies as a change in behavior. However, not much is yet on the table in the EGA negotiation. Below we carry out a reality check for tariffs, and the eventual NTBs and Services components of these negotiations.

**TARIFFS: NOTHING ON THE TABLE EXCEPT FOR CHINA AND SOUTH KOREA**

Recent estimates show that even if the Asia-Pacific Economic Forum (APEC) list of 54 goods were to be extended to the WTO ‘combined list’ of 411 goods – which will be difficult if the wrangling over the submission lists at Doha is a guide – the average tariff (import weighted) among the 13 participants stands at 2.2 percent. Even taking into account tariff dispersion (there are a few tariff peaks at 35 percent), the tariff structure in EGs would be equivalent to a 3.4 percent uniform tariff (with the APEC list, the uniform tariff equivalent is a negligible 1.8 percent!). In the negotiating group, four countries have free-trade in EGs, and only two countries China (7.8 percent) and Korea (4.7 percent) have average tariffs above 4 percent (see here). So watching China’s (and South Korea’s) positions at the EGA negotiations will be an indicator of their political buy-in to climate negotiations.

**NON-TARIFF BARRIERS (NTBS) ARE NOT ON THE AGENDA**

Negotiators have eschewed including NTBs on the agenda. This may be shrewd since, unlike tariffs, not all NTBs are welfare-reducing as some
correct for market failures and many are not sector specific \cite{Fliess and Kim, 2007}. Nonetheless, for the ten negotiating countries with estimates, for the APEC list that is the starting point for the negotiations, the average tariff equivalent of both measures (tariffs and NTBs) is 5.2 percent, equivalent to a 14.8 percent average uniform tariff – the estimate reflecting a high dispersion in the tariff-equivalent estimates of NTBs. These are rough estimates to be interpreted with great caution, but they suggest that, apart from China and South Korea, unless the ‘Davos 14’ include NTBs and extend the goods list beyond the APEC list, they have very little to ‘offer’ each other at the negotiating table. At the very least, if the APEC list is not extended, NTBs would have to be on the EGA agenda.

**SERVICES ARE COMPLEMENTARY TO GOODS TRADE AND ARE NOT YET ON THE EGA AGENDA**

It is widely accepted that commitments at the General Agreement on Trade in Services (GATS) – for those countries that made commitments—merely consolidated members’ existing services policies: so far, no liberalization of trade in services has really taken place on a multilateral basis. And for developing countries that did not make commitments at the GATS, trade liberalization in services has only occurred as part of North-South Regional Trade Agreements (e.g. the U.S. and the EU with Southern partners). Extending the agenda to include Environmental Services (ESs) would be a great step forward for participants because of the extensive packaging of goods and services in environment-related projects.

Inclusion of ESs is a tall task, but so is the climate change challenge and, arguably, at this stage, including ESs is the acid test. Hurdles to be overcome are many, among which the first step would be to identify UN Central Product Classification codes related to ESs beyond the current traditional definition considered in the W/120 list used at the GATS,
which only includes four sub-sectors. Unfortunately that list is exclusive so that services sub-sectors like engineering services and telecommunications cannot appear twice as a ‘standard’ Service sector and as an ES sector. The other challenge is how to deepen services liberalization in two distinct negotiations with different participants (i.e. TiSA and EGA).

LOW-INCOME COUNTRIES TO BE THE MAIN BENEFICIARIES FROM A SUCCESSFUL EGA

As for low-income countries – the greatest beneficiaries of freer trade in green goods and services – receiving Most-Favoured Nation (MFN) status among signatories of the EGA would still not mean much. Their export capabilities in EGs and ESs are limited. To benefit they would have to participate by lowering barriers to their imports of both EGs and ESs. Reducing barriers to trade on both would be important because, as mentioned above, trade in EGs involves products and technologies that are packaged in environmental projects that include ESs (for example, wastewater management services, air pollution control, recycling). Even with a more appropriate list of ESs, because it is harder to monitor the fulfilment of commitments to liberalization, disincentives to negotiate on services will be strong, especially when negotiating partners lack trust in each other. Mutual equivalence in selected services sectors, thanks to a strong coordination between trade negotiators and regulators, might then be easier to achieve than harmonization.

THREE LANDMARKS + 1 FOR A SUCCESSFUL EGA

Sticking to the ongoing negotiating agenda, a meaningful EGA would need to reach three landmarks: the “critical mass” threshold; a list of products beyond the 54 APEC product list; and some reduction in NTBs. And for the environment, the agenda would have to be extended to include reductions in barriers to trade in Environmental Services which
are complementary to trade in Environmental Goods. Such a deep engagement would be a powerful signal for the upcoming climate negotiations in Paris in 2015 and they would show that the WTO can help build the cooperation that will be needed to achieve environmental sustainability.

Themes: Climate Change, Standards & Regulations, Trade & Supply Chains

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