The WTO Environmental Goods Agreement: Why Even A Small Step Forward Is a Good Step

DE MELO, Jaime, VIJIL, Mariana, MCKENNA, Miles

Abstract

International trade has a critical role to play in environmental protection and the effort to mitigate climate change. While it certainly isn’t always framed this way, it is important to realize that increased trade and economic growth are not necessarily incompatible with a cleaner environment and a healthier climate. If we are going to move away from dirty fossil fuels and inefficient energy processes at a rate necessary to limit the likely devastating results of a warmer planet, then we need enabling policies in place—especially when it comes to trade policy.

Reference

The WTO Environmental Goods Agreement: Why Even A Small Step Forward Is a Good Step

Submitted by Miles McKenna On Mon, 09/22/2014
co-authors: Jaime de Melo, Mariana Vijil

International trade has a critical role to play in environmental protection and the effort to mitigate climate change. While it certainly isn’t always framed this way, it is important to realize that increased trade and economic growth are not necessarily incompatible with a cleaner environment and a healthier climate.

If we are going to move away from dirty fossil fuels and inefficient energy processes at a rate necessary to limit the likely devastating results of a warmer planet, then we need enabling policies in place—especially when it comes to trade policy.

That’s why, this week, a group of 14 World Trade Organization (WTO) Members are meeting to begin the second round of negotiations on the Environmental Goods Agreement (EGA)—an effort aimed at liberalizing trade in products that help make our world cleaner and greener.

These negotiations are building on a list of 54 environmental goods identified by the Asia-Pacific Economic Cooperation (APEC) forum in 2012. In a pioneering move, the APEC nations agreed to reduce import tariffs on these goods to 5 percent or less by 2015.

The list includes renewable and clean energy technologies, water and waste treatment products, air pollution control technologies, and environmental monitoring and assessment equipment. Lower tariffs on these products should lead to lower prices, which can help support emerging green industries across the globe by boosting trade in environmental goods (EGs). At the same time, they can help meet national climate and energy targets, strengthen energy security, and reduce dependency on fossil fuels.

But here’s the tricky part: Ignoring for a moment the complexity and difficulty of trade negotiations in general, a “critical mass” must be reached. Historically, this has been when parties to a WTO plurilateral agreement account for 90 percent of global goods trade for the products under discussion, as for the Information Technology Agreement. If this threshold is reached, the agreement will go into effect for all WTO members based on the Most Favoured Nation (MFN) principle.

Currently, the 14 Members negotiating the EGA account for 86 percent of global EGs trade.
That's not to say the threshold cannot be reached. This plurilateral agreement route has delivered progress, even as the Doha Round of negotiations has stalled, on issues like government procurement and information technology.

So the good news: it can be done.

Ten of the 14 Members of the negotiations are APEC nations—a solid bloc to lead this process. Not only was the APEC agreement the first time major trading nations had ever agreed on a list of EGs, but its members also account for over two-thirds of global trade in EGs on that initial list.

The fact that a bloc of mostly non-Western, emerging economies is creating initiatives and driving pluralistic negotiations in the WTO is notable. With high-profile megaregional trade negotiations in the spotlight, some observers have questioned the role of the WTO as the most viable forum for trade negotiations. This process offers a chance for the global body to underscore its value to developing countries and on the world stage.

Global trade in EGs already totals nearly US$1 trillion annually. But an increasingly large percentage of that is now in South-South trade flows, led by China, according to a recent report identifying key growth markets for trade in EGs published by the United Nations Environment Programme (UNEP).

In fact, the global market for low-carbon and energy-efficient technologies is projected to nearly double by 2020. This “offers developing countries an unprecedented opportunity to drive the green economy transition,” according to United Nations Under-Secretary General and UNEP Executive Director Achim Steiner.

Imagine, in a world awaiting a global agreement to combat climate change, the world’s foremost economic institution may be the first to cement a legally-binding first step. But for it to do so, the EGA will need to overcome substantial obstacles.

First, there must be agreement on what constitutes an “environmental good.” The 14 Members have started from the original APEC list of 54 products to expand it to a broader list that could go up to 411 goods. But this has led to concerns of mercantilism, with countries failing to lower protections on products and industries with particularly high tariff peaks. Not to mention concerns over how “green” some products actually are, especially when it comes to components that can be used in natural gas exploitation or nuclear energy production.

Second, there is the critical mass threshold. Increased country participation is essential to move further towards free trade in EGs. Other major economies, like India and Brazil, as well as other low-income countries eager to follow a more sustainable development path should be encouraged to participate in the negotiations. For some, there have been fears of a spike in cheaper, foreign imports that could crowd out domestic traders. But analysis shows these fears to be overstated.

Third, tariffs on EGs are already relatively low (some already at zero) and reducing them is far from a breathtaking task. Even if the list of 411 is agreed upon, recent analysis shows that by taking tariff dispersion into account the tariff structure on EGs would be equivalent to a 3.4 percent uniform tariff. For many products there would likely be minimal impact.

And finally, most critically, the EGA—as of now—fails to address the areas where a new agreement could have the biggest impact on lowering trade costs: non-tariff barriers (NTBs) and trade in environmental services (ESs).

In an ideal world, a first best EGA would expand the list of suitable EGs and eliminate all tariffs on these products—they’re low enough already. It would harmonize regulations, processes, and product standards to help overcome the much more significant impact of NTBs on trade costs in EGs. And it
would incorporate trade in ESs, recognizing that in today’s markets EGs and ESs are complementary and often go hand-in-hand. Then, more economies, particularly lower- and middle-income countries would become party to the agreement.

For now, any legally-binding global agreement on EGs is a step in the right direction, and one to be praised.

- Tags:
  - EGA [11]
  - Environmental Goods Agreement [12]
  - WTO [13]
  - Trade [14]
  - Law and Regulation [15]
  - Governance [16]
  - Global Economy [17]
  - Environment [18]
  - Climate Change [19]
  - The World Region [20]
  - Taiwan, China [21]
  - Switzerland [22]
  - Singapore [23]
  - Norway [24]
  - New Zealand [25]
  - Korea, Republic of [26]
  - Japan [27]
  - Hong Kong SAR, China [28]
  - Costa Rica [29]
  - China [30]
  - Canada [31]
  - Australia [32]


Links: