

Implementation of APEC Environmental Goods List Commitments: Challenges and Next Steps

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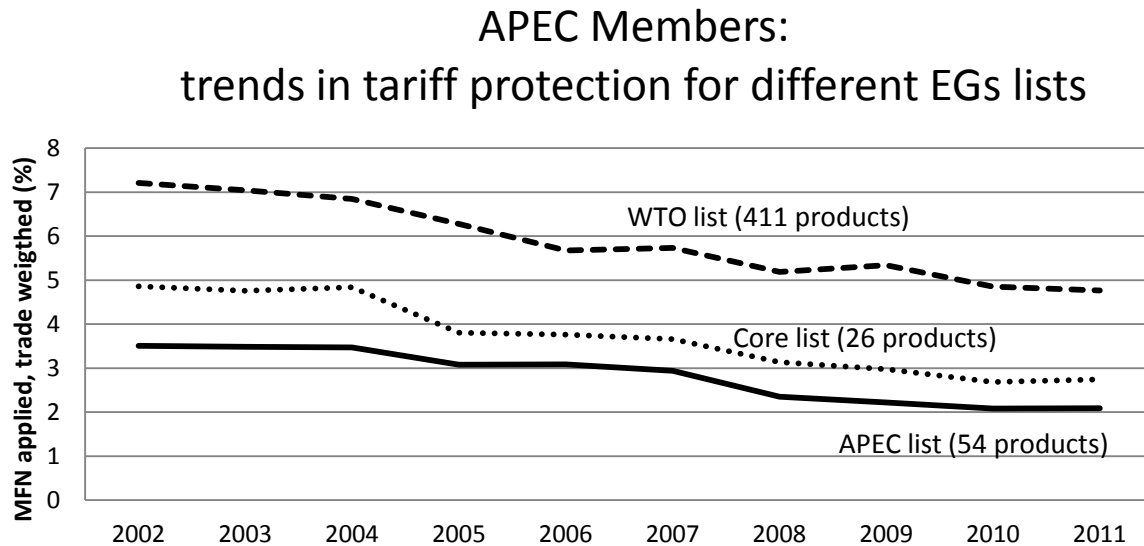
Outline

- I. The Vladivostok declaration: a game changer?
- II. Translating the Vladivostok declaration into real trade gains: main challenges
- III. From APEC to Davos: what is on the table? How much to expect?
- IV. Conclusion and next steps

I. The Vladivostok declaration: a game changer?

- APEC 'forging ahead' while Doha negotiations have stalled for a decade: first agreement on a list of EGs and first commitment to reduce applied tariffs.
- Positive signal to the WTO => plurilateral negotiations launched at Davos starting from the 54 APEC EGs list.
- The Vladivostok declaration: voluntary reduction to 5% or less in applied tariffs for fast-growing EGs in APEC trade.
- APEC Members accounted for 70% of world trade in 2011 for the 54 EGs.
- Rationale for EG&Ss liberalization: diffusing products and technologies necessary to reduce environmental damage.

Tariff protection for the 54 EGs already low...



- APEC Members have **taken on board EGs trade liberalization** way before 2011's commitments: decreasing trends in applied tariffs and a lower level of protection in EGs (all lists) than non-APEC Members.

- Tariff protection for APEC list (54 goods) is lower than for other lists** discussed at the WTO, suggesting mercantilistic behaviour: “made-to-measure” approach in the selection of products (low tariff peaks, revealed comparative advantage; de Melo and Balineau, 2013).

...but potential reductions for some Members once differences in national tariff schedules are worked out

APEC tariff and trade structure for the 54 goods list (2011)

	EGs imports in billion USD (share of world imports)	Average Bound tariff	Average Applied MFN tariff	Tariff max	Nbr of TL	% TL above 5%	Share of imports under TLs with an MFN-applied rate of over 5%
Australia	7 (2 %)	6.89	2.61	5.0	70	0%	0%
Canada	12 (3 %)	3.75	0.83	9.5	108	7%	1.5%
Chile	1 (0 %)	25.00	6.00	6.0	80	100%	100%
China	97 (21 %)	5.07	4.99	35.0	121	36%	14.8%
Hong Kong	26 (5 %)	0.00	0.00	0.0	88	0%	0.0%
Indonesia	4 (1 %)	25.08	2.87	15.0	161	11%	14.8%
Japan	19 (4 %)	0.04	0.04	2.0	72	0%	0.0%
Korea	27 (6 %)	7.56	5.41	8.0	246	66%	73.1%
Mexico	14 (3 %)	35.04	5.16	20.0	250	28%	4.3%
Malaysia	9 (2 %)	6.51	1.94	30.0	84	12%	n.a.
New Zealand	0.7 (0 %)	11.89	3.30	5.0	80	5%	0.0%
Papa New Guinea	0.2 (0 %)	n.a. ^b	0.46	25.0	54	2%	n.a.
Peru	0.9 (0 %)	30.00	0.25	9.0	100	3%	0.5%
Philippines	2 (0 %)	12.89	1.83	10.0	174	3%	1.7%
Russia	9 (2 %)	n.a. ^b	8.55	20.0	157	60%	n.a.
Singapore	13 (3 %)	4.54	0.00	0.0	159	0%	0.0%
Chinese Taipei	n.a.	n.a.	2.15	10.0	128	9%	2.1%
Thailand	7 (2 %)	15.40	3.26	20.0	175	20%	32%
United States	67 (14 %)	1.30	1.46	16.0	168	7%	1.5%
Vietnam	4 (1 %)	1.59	0.59	14.0	161	4%	n.a.
Total	320 (69 %)	11.33	2.59	35.0	2636	21%	12.1%

Source: de Melo and Vijil (2014) (last column from Vossenaar; 2013)

- **Non-binding commitment to reduce already low applied tariffs** (2,6% on average) **while bound tariffs can be very high** (11,3% on average; reaching 25%-35% for Chile, Mexico, Indonesia and Peru).

- **Many Members already in compliance but still scope for tariff reductions:** NTL can go up to 35% and 12% of trade in EGs still happens under lines with tariffs above 5%.

- “Ex-outs” identified at NTL level: **implementation varies** between APEC Members due to differences in interpretation and complexity of custom classifications.

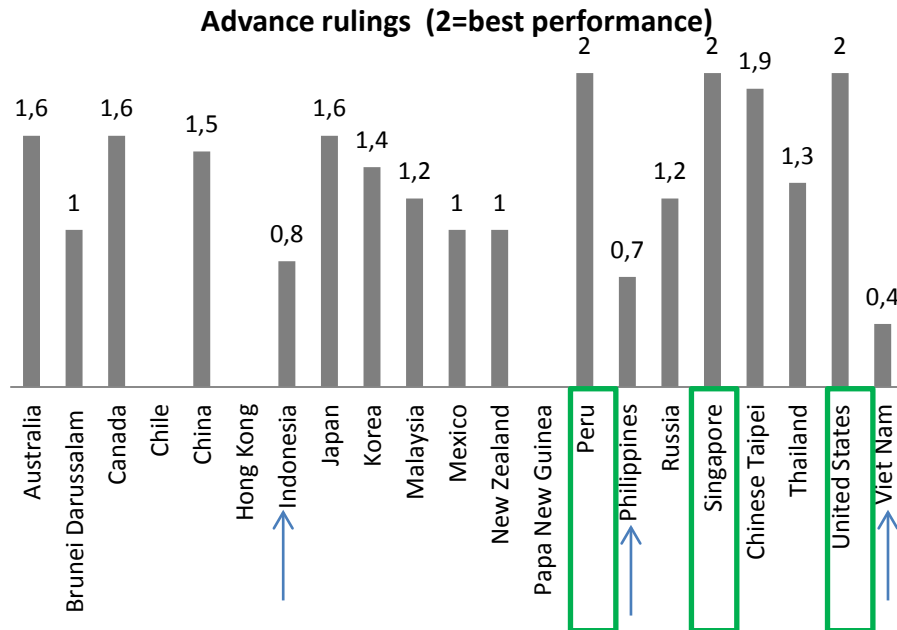
=> **Potential tariff reductions for some Members but costly uncertainty for traders.**

- II. Translating the Vladivostok declaration into real trade gains: mains challenges
 1. Reducing trade costs through trade facilitation
 2. Addressing non-tariff barriers
 3. Reducing barriers to market access and national treatment in environmental services

Implementing the WTO Trade Facilitation Agreement

- **Inconsistent decisions on tariff classification** depending on, for example, the customs office or the rotating allocation of officers **leads to uncertainty** in the entire trade transaction.
 - Empirical evidence suggest that **supply chains move to economies and locations with higher certainty, predictability and reliability of trade costs** (Evans and Harrigan, 2005).
 - **Implementing the WTO Trade Facilitation Agreement (TFA)** should reduce uncertainty and increase predictability, consistency and transparency for traders:
 - *Publication and availability of information* (Art. 1): e.g. publishing on the internet rates of duty and taxes; rules for the classification of goods for custom purpose.
 - *Advance rulings* (Art. 3): binding decision by customs, at the request of the trader, on the tariff classification of the good (and other characteristics such as origin, custom valuation).
 - Implementing TFA should translate into a trade costs reduction of 13%-15% for developing economies; **advance rulings has the highest impact on trade** (Moïse et al. 2011, OECD 2014).
- => **TFA: provide higher predictability for traders on the implementation of the Vladivostok declaration?**

Reducing uncertainty on duty applied to EGs through trade facilitation



Source: OECD Trade Facilitation Indicators

Advance rulings (AR): performance varies between APEC Members (number of AR, accessibility to traders, length of validity, appeal procedures).

Relevance for EGs: tariffs can be high (35% max), custom schedules can be complex (138 NTL on average by Member for the 54 EGs list) and implementation of commitments is voluntary.

Advance rulings:

1. **binding commitment that the good** will be classified as an EG in NTL (particularly important for “ex-outs”) and thus, **benefit from tariff reduction**;
2. reduce disputes with the customs authority on tariff headings at the moment of release or clearance, and thus **avoid delays**;
3. customs integrity will not be challenged during the clearance process and thus, **less possibilities for corruption**.

Tackling non-tariff barriers

2011 APEC's Honolulu Mandate: go beyond tariff-cutting by **removing non-tariff restrictions** related to local content requirements, government procurement and technical barriers to trade.

Applied tariffs vs AVE of NTBs (Kee et al. 2009)

	APEC Members (17)	Rest of the World (53)
APEC list of EGs		
Applied MFN tariff	3.8	5.9
NTBs (AVE)	25.8	38.0
Non-EGs		
Applied MFN tariff	7.3	12.5
NTBs (AVE)	38.4	44.2

•EGs: **NTBs > tariffs.**

•EGs relatively less protected than other goods.

•**APEC Members have lower trade restrictions across the board** (incl. EGs) than the RoW.

Source: de Melo and Vijil (2014).

=> APEC Members have a more open trade policy regime than the RoW on EGs but **reducing NTBs seems more promising than reducing tariffs.**

Implementing APEC's Honolulu Mandate

Ad-valorem eq. (2004)	Tariff (%)	APEC list
		NTBs (%)
Australia	3,1	36,0
Canada	1,6	n.a.
Chile	6,0	24,7
China	4,8	8,9
Hong Kong	0,0	0,0
Indonesia	2,7	n.a.
Japan	0,0	1,9
Korea	5,1	n.a.
Mexico	11,0	44,5
Malaysia	2,1	25,5
New Zealand	4,6	42,2
Peru	6,8	3,5
Philippines	2,0	40,9
Russia	6,5	52,5
Singapore	0,0	23,4
Thailand	6,2	13,0
United States	1,5	44,3
APEC Mean	3,8	25,8

Source: methodology from de Melo and Vijil (2014).

N.B.: NTBs between Members must be compared with caution as HS-6 lines with missing NTB estimates have been eliminated (e.g. China only has NTB data for 5 products on the APEC list so the average value is over 5 products only).

- **Ad-valorem equivalents of NTBs can be very high compared to tariffs**, and these are lower-bound estimates mainly based on WTO TBT notifications (do not include LCR, GP related barriers).

- Empirical evidence suggest that NTBs have a greater impact on trade than tariffs.

- But unlike tariffs, not all NTBs are welfare-reducing since some provide regulations to correct market failures.

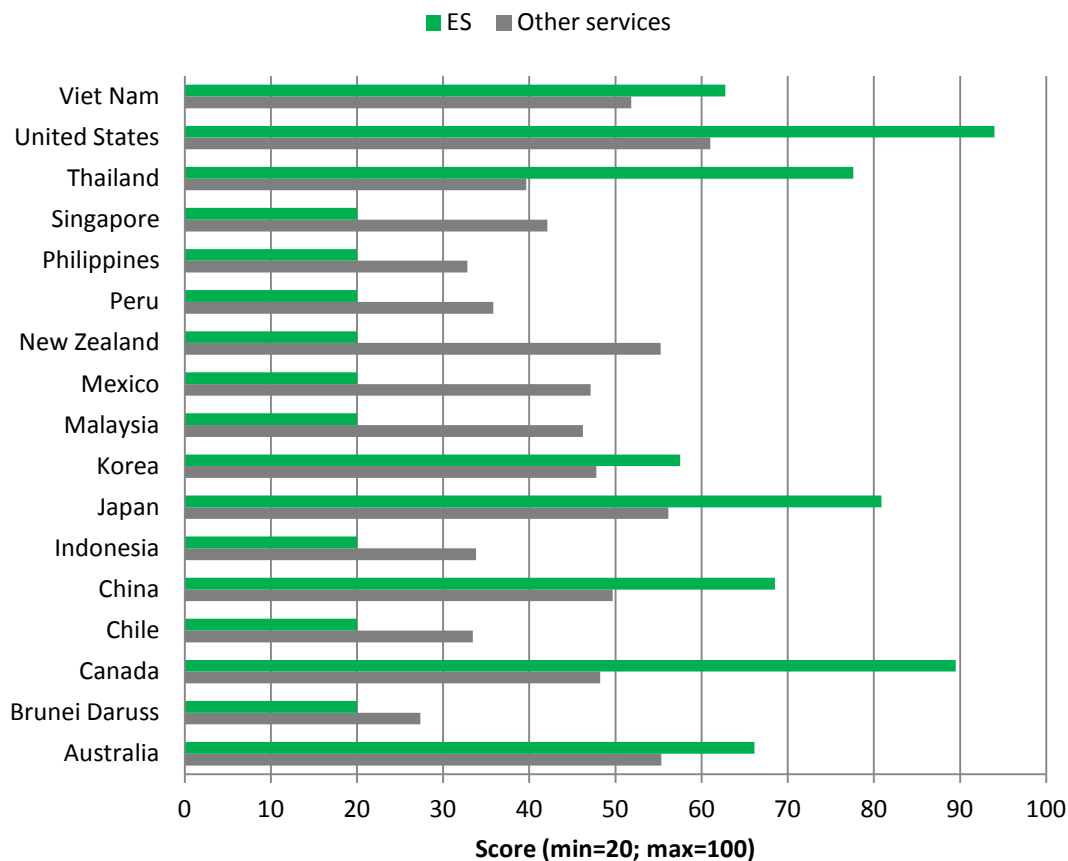
=> **Significant benefits from regulatory convergence and cooperation** on regulations, standards, testing and certification procedures, particularly for emerging new technologies.

Barriers to market access and national treatment in environmental services

- Increasing trade in tasks (services) as opposed to trade in goods and **high degree of complementarities between EGs and ESs** (many operators integrate the supply of ESs with the importation of EGs) = > **removing barriers to trade in services is necessary.**
 - **Challenging to measure the level of restrictiveness in ESs trade** (attempts from OECD and WB STRI): applied services policies < than GATS and FTAs bound commitments.
 - Evidence suggests that **trade costs in services could be 2 to 3 times higher** than those for trade in goods (Miroudot et al., 2013) .
 - **Identifying ESs** (W/120 list based on CPC codes): Sewage services; refuse disposal services; sanitation and similar sectors; and other services (cleaning services for exhaust gases, noise abatement services, nature and landscape protection services, and other services).
Important ESs classified elsewhere (W/120 list): e.g. construction and engineering services; professional services; research and development services; tourism.
- => **Definition of ESs is too narrow and inadequate:** ESs defined as end-of-pipe public infrastructure services, fails to include a prevention-oriented vision of ESs.

Barriers to trade in environmental services: how important are they?

GATS commitments index



Source: methodology from de Melo and Vijil (2014).

• **GATS: 9 APEC Members made commitments on ESs.** Developing economies made fewer commitments in ESs compared to other services (infrastructure-related ES mainly provided by the public sector).

• Most of the **opening** in ESs has occurred **on a North-South preferential basis** (de Melo and Vijil, 2014).

⇒ **Preferential services liberalization can be easily multilateralized** (regulatory reform occurs de facto on a MFN basis and RoO are quite lax, except for Mode 4). Substantial liberalization:

- exchanging the best PTA commitment in TiSA;
- APEC Early Voluntary Sectoral Liberalization.

III. From APEC to Davos: what is on the table? How much to expect?

- In January 2014, **14 economies (including 10 APEC Members) committed to negotiate reduction in barriers to trade in EGs and ESs** with hope of more economies joining in and that APEC (54 products) list will be extended.
- A plurilateral agreement: an alternative to multilateral and regional liberalization (e.g. GPA, ITA).
- APEC leadership: creating initiatives that translate into plurilateral agreements anchored to the WTO (e.g. ITA).

Tariffs and AVEs of NTBs: EGs vs. other goods (by income group for APEC list)

Income group	Tariffs only (applied MFN)						Overall protection (Tariffs+AVEs of NTBs)					
	EGs				Other goods		EGs				Other goods	
	APEC list		WTO list		APEC list		APEC list		WTO list		APEC list	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Tariff (import weighted)	TRI	Tariff (import weighted)	TRI	Tariff (import weighted)	TRI	Tariff + NTBs (import weighted)	TRI	Tariff + NTBs (import weighted)	TRI	Tariff + NTBs (import weighted)	TRI	
HIC (18)	2,2	3,1	2,9	3,8	3,7	15,8	5,8	16,1	6,9	29,1	7,0	30,4
UMIC (29)	4,5	6,2	8,9	12,5	8,0	12,9	13,8	25,2	18,6	41,9	17,0	42,7
LMIC (27)	3,7	4,9	7,5	10,3	7,8	14,6	30,2	52,2	23,9	40,7	19,6	44,8
LIC (21)	5,2	6,6	12,8	15,4	13,4	19,2	40,5	70,2	16,7	33,1	10,7	25,6

Source: de Melo and Vijil (2014).

- **Tariffs EGs < non-EGs:** intermediate goods (opposition to protection by downstream sectors) + few tariff peaks (mercantilistic behaviour, Balineau and de Melo; 2013).
- **EGs tariffs already low:** benefits come from DEs participation; tariffs barely high enough for engaging in a bilateral barter among DEs by a request-and-offer approach.
- **NTBs:** high and decreasing by income group.

Tariffs and AVEs of NTBs: EGs vs. other goods (by Davos economy for APEC list)

Tariffs only (applied MFN)						Overall protection (Tariffs+AVEs of NTBs)						
EGs				Other goods		EGs				Other goods		
APEC list		WTO list		APEC list		APEC list		WTO list		APEC list		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
Tariff (import weighted)	TRI	Tariff (import weighted)	TRI	Tariff (import weighted)	TRI	Tariff + NTBs (import weighted)	TRI	Tariff + NTBs (import weighted)	TRI	Tariff + NTBs (import weighted)	TRI	
1,6	2,8	3,5	4,2	2,8	3,9	Australia	8,5	27,7	12,6	55,5	9,9	43,8
0,6	1,5	2,8	3,9	2,4	4,8	Canada	n.a.	n.a.	12,2	68,4	5,8	40,3
4,8	6,2	7,8	11,5	4,8	9,0	China	1,6	5,3	15,0	47,4	9,9	35,2
0,0	0,2	2,5	5,2	4,4	8,4	Costa Rica	n.a.	n.a.	n.a.	n.a.	0,4	5,6
0,8	1,3	2,5	4,5	2,8	5,0	European Union	n.a.	n.a.	0,0	1,1	7,0	24,1
0,0	0,0	0,0	0,0	0,0	0,0	Hong Kong, China	0,0	0,0	0,2	4,6	2,0	19,4
0,0	0,1	0,1	0,6	1,7	4,5	Japan	0,1	0,9	4,2	18,1	8,2	35,3
6,1	6,7	4,7	5,8	8,3	41,0	Korea, Rep,	n.a.	n.a.	n.a.	n.a.	0,1	1,6
2,7	3,6	3,3	4,4	2,4	3,8	New Zealand	15,5	34,0	12,7	31,7	16,1	56,5
0,0	0,0	0,0	0,0	1,0	10,6	Norway	n.a.	n.a.	0,0	0,1	3,6	23,0
0,0	0,0	0,0	0,0	0,0	0,0	Singapore	12,9	25,2	34,9	91,7	19,8	65,2
0,0	0,2	0,0	0,2	0,1	0,9	Switzerland	1,8	9,2	3,2	18,6	2,4	12,1
0,6	1,3	1,7	3,2	2,7	8,0	United States	1,6	15,8	7,8	55,4	10,3	40,4
1,3	1,8	2,2	3,4	2,6	7,7	Average Davos	5,2	14,8	9,3	35,7	7,3	31,0

Source: de Melo and Vijil (2014).

Many applied tariffs=0: besides China, New-Zealand and Korea, **little to offer unless list is extended to other goods or NTBs are covered.**

Import response to a 50% tariff reduction (by Davos economy-- Kee et al. HS-6 level elasticities)

	Elast.	Applied MFN Tariff (s.a.)	Initial imports*	50%	
				Add. Imports*	Var.
Australia	-4,9	2,6	5 894	95	1,6 %
Canada	-6,9	0,4	11 376	53	0,5 %
China	-3,0	5,0	91 115	3 045	3,3 %
Costa Rica	-1,6	0,5	254	0,0	0,0 %
European Union	-5,7	1,9	69 006	483	0,7 %
Hong Kong, China	-4,3	0,0	24 209	0,0	0,0 %
Japan	-13,4	0,0	13 205	1	0,0 %
Korea, Rep,	-5,9	5,4	26 138	1 221	4,7 %
New Zealand	-2,8	2,9	608	16	2,6 %
Norway	-3,2	0,0	2 358	0,0	0,0 %
Singapore	-1,6	0,0	12 636	0,0	0,0 %
Switzerland	-1,8	0,0	3 435	1	0,0 %
United States	-6,1	1,5	50 999	449	0,9 %
Average Davos (13)	-4,7	1,6	23 941	413	1,1 %

Source: de Melo and Vijil (2014).

- Total Davos : **11 Billion USD of additional imports if tariffs completely eliminated.**
- Higher responses for China, Korea and New-Zealand.

Import response to a 50% tariff reduction (by income group)

		Applied MFN			50%	
		Elast.	Tariff (s.a.)	Initial imports*	Add. Imports*	Var.
APEC list	HIC (18)	-4,4	2,1	12 704	149	2,1%
	UMIC (29)	-3,7	4,3	5 148	179	4,1%
	LMIC (27)	-3,6	4,2	691	32	3,2%
	LIC (21)	-2,7	5,7	67	3	4,3%
WTO list	HIC (18)	-4,1	2,9	74 223	1 335	2,4%
	UMIC (29)	-2,9	6,9	19 333	1 476	7,8%
	LMIC (27)	-2,6	6,8	5 036	342	5,8%
	LIC (21)	-1,8	8,9	688	57	7,9%

Source: de Melo and Vijil (2014).

• **Developing economies would not be inundated by imports from industrialized economies** (additional imports for a 50% tariff reduction) :

- 2 % to 4 % for the APEC list;
- 2 % to 8 % for the WTO list.

IV. Conclusion and next steps

- APEC commitments on EGs : **potential tariff reductions for some Members but costly uncertainty for traders.**
- Translating the Vladivostok declaration into real trade gains by **implementing the WTO Trade Facilitation Agreement and reducing NTBs** related to trade in goods and **barriers related to trade in services.**
- A plurilateral agreement with binding commitment and MFN extension (multilaterally friendly)=> **is Davos the way to go?**
- Necessary steps for Davos initiative to concretise:
 1. Elimination of all tariffs for all economies as they are already low;
 2. Extension of the list of environmental goods in line with the WTO list of 411 products, even though few tariff peaks remain on these goods;
 3. Participation of more economies, particularly middle-income economies, since a substantial reduction in tariffs would not be followed by an inundation of imports. An opportunity for other APEC Members to join Davos?
 4. Tackling non-tariff barriers, recognizing that an agreement on their identification and reduction will be difficult.
- **Liberalization of environmental services** with a degree of commitment close to the best RTA.

Thank you

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