

Trade Liberalization at the Environmental  
Goods Agreement Negotiations:  
What is on the Table?  
How Much to Expect?

Jaime de Melo  
FERDI

GGKP 3rd annual conference:

Fiscal Policies and the Green Economy Transition:  
Generating Knowledge - Creating Impact

Venice, January 29-30, 2015

## Background: From APEC commitments to EGA

- ▶ Rationale for liberalization of Egs & ESs : diffusing products and technologies necessary to reduce environmental (including climate) damage.
- ▶ APEC 'forged ahead' in September 2012 while Doha negotiations have stalled for a decade: APEC first agreement to reduce applied tariffs (to a max of 5% on 'APEC list' of 54 goods).
- ▶ EGA is positive signal => plurilateral negotiations in WTO ambit by 14 members: announced in Jan 2014, EGA launched at WTO in July 2014 (with start from APEC list of 54 EGs).
- ▶ **EGA could be a plurilateral** agreement (e.g. GPA, ITA) to benefit all WTO members: alternative to multilateral or regional liberalization with potentially much larger reductions.
- ▶ EGA negotiation specificities: (i) strong complementarities with Environmental Services (ESs); (ii) NTBs remain high. Neither ESs nor NTBs on negotiating agenda so far.

### Three Themes

- ⇒ **Why it is important for the Climate negotiations to watch progress at the EGA**
- ⇒ **What can we expect from EGA?**
- ⇒ **Implementation challenges to concretize significant Gains**

Why it is important for Climate  
Negotiations to follow EGA negotiations

## EGA negotiations as barometer for climate negotiations

Three requirements not fulfilled by KP:

- Obtain full participation ( KP was « deep and shallow »)
- Parties to Agreement need to comply to their pledges (MRV)
- Incorporate obligations that demand that countries change their behavior substantially

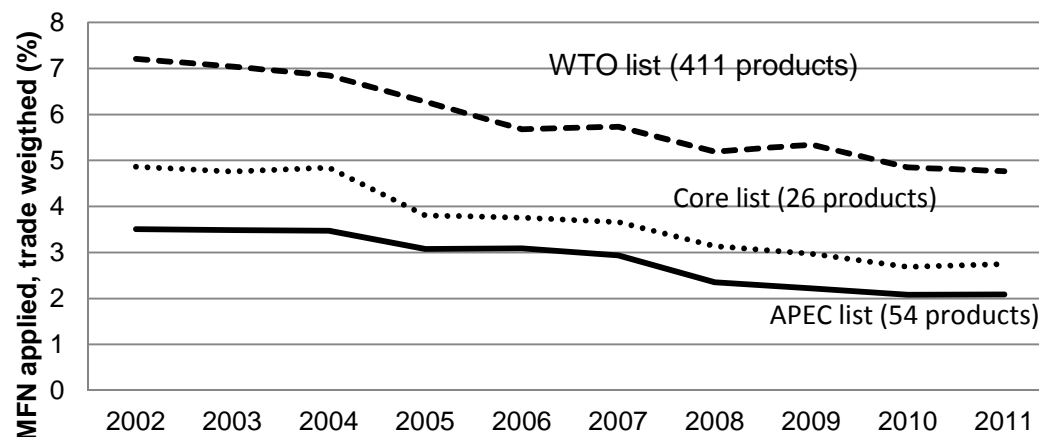
Could EGA negotiations fulfill these three requirements?

- A few more countries participate to cover 90% of world trade in EGs, then reductions negotiated extended to all WTO members
- MFN +NT+DSP implies pledges will be fulfilled
- Will countries undertake obligations that substantially change their behavior? Depends on negotiations being extended to NTBs and to ESs. Interesting to watch outcome as this is an indirect test of the «club approach » to climate negotiations

Expectations from current EGA  
negotiations:  
What is on the Table

# 1. What is on the Table (I)?

APEC Members:  
trends in tariff protection for different  
EGs lists



- **APEC Members have taken on board EGs trade liberalization well before 2012 commitments:** decreasing trends in applied tariffs and a lower level of protection in EGs (all lists) than non-APEC Members. So EGA ( $\approx$  APEC members) have little to put on the table
- **Tariff protection for APEC list (54 goods) is lower than for other lists discussed at the WTO.** Suggests mercantilistic behaviour: “made-to-measure” approach in the selection of products (low tariff peaks, revealed comparative advantage; de Melo and Balineau, 2013).

# I. EGA: What is on the table (II)?

EGA Members structure of protection for APEC list

Importer	EGs imports in billion USD (share of world imports)	Bound (s.a.)	Applied tariff MFN (s.a.)	Maximum Tariff	Nbr TL	Nbr above 5%	TL
Column	1	2	3	4	5	6	
Australia	7,0 (1,5 %)	6,8	2,6	5,0	70	0	
Canada	12,4 (2,6 %)	3,7	0,4	7,5	108	4	
China	97,4 (20,9 %)	5,1	5,0	35,0	132	47	
Costa Rica	0,2 (0,1%)	31,2	0,5	14,0	95	5	
European Union	70,2 (15,0 %)	1,5	1,9	4,7	107	0	
Hong Kong, China	25,5 (5,5 %)	0,0	0,0	0,0	90	0	
Japan	18,6 (3,9 %)	0,0	0,0	2,0	72	0	
Korea, Rep.	26,9 (5,7 %)	7,3	5,4	8,0	247	163	
New Zealand	0,6 (0,1 %)	11,7	2,9	5,0	80	4	
Norway	2,7 (0,6 %)	2,2	0,0	0,0	84	0	
Singapour	13 ,2 (2,4 %)	4,5	0,0	0,0	159	0	
Switzerland	3,8 (0,8 %)	0,0	0,0	0,0	111	0	
Taipei, Chinese	n.a.	2,3	2,2	10,0	129	11	
United States	66,7 (14,3 %)	1,4	1,5	16,0	168	11	
<b>Total</b>	<b>345,6 (74,2 %)</b>	<b>5,5</b>	<b>1,6</b>	<b>35,0</b>	<b>1652</b>	<b>245</b>	

Source: de Melo and Vijil (2014)

•Applied tariffs are already **low** (1.6 % on average), many countries already at 0 % and **bound tariffs are low too** (5.5 % on average).

•But still scope for tariff reductions, as NTL can go up to 35 % in China and 16 % in the US.

•Yet, “Ex-outs” identified at **NTL level**: implementation will vary between Members due to differences in interpretation and complexity of custom classifications.

=> **Potential tariff reductions for some Members but costly uncertainty for traders because of “ex-outs”.**

## 2. Extending the list of EGs (WTO list= 411 products)

	EGs Tariffs only (applied MFN)			
	APEC list		WTO list	
	(1)	(2)	(3)	(4)
	Tariff (import weighted)	TRI	Tariff (import weighted)	TRI
Australia	1,6	2,8	3,5	4,2
Canada	0,6	1,5	2,8	3,9
China	4,8 →	6,2	7,8 →	11,5
Costa Rica	0,0	0,2	2,5	5,2
European Union	0,8	1,3	2,5	4,5
Hong Kong, China	0,0	0,0	0,0	0,0
Japan	0,0	0,1	0,1	0,6
Korea, Rep,	6,1	6,7	4,7	5,8
New Zealand	2,7	3,6	3,3	4,4
Norway	0,0	0,0	0,0	0,0
Singapore	0,0	0,0	0,0	0,0
Switzerland	0,0	0,2	0,0	0,2
United States	0,6	1,3	1,7	3,2
<b>Average EGA Member</b>	1,3	1,8	2,2	3,4

- Many applied tariffs = 0.

- Low level of protection even after considering the Trade Restrictiveness Index (TRI):

uniform tariff that, if applied to imports instead of the current structure of protection, would leave welfare at its current level.

- Tariffs WTO list > APEC list

=> Besides China, New-Zealand and Korea, **little to offer unless EGs list is extended beyond APEC list.**

Source: de Melo and Vijil (2014)



## Import response to tariff elimination by EGA Member (I)

	Elasticities	Applied MFN	Initial imports*	100 %	
		Tariff (s.a.)		Add. Imports*	Var.
Australia	-4.9	2.6	5 894	197	3.4 %
Canada	-6.9	0.4	11 376	108	1.0 %
China	-3.0	5.0	91 115	6 421	7.0 %
Costa Rica	-1.6	0.5	254	0.1	0.0 %
European Union	-5.7	1.9	69 006	982	1.4 %
Hong Kong, China	-4.3	0.0	24 209	0.0	0.0 %
Japan	-13.4	0.0	13 205	3	0.0 %
Korea, Rep,	-5.9	5.4	26 138	2 561	9.8 %
New Zealand	-2.8	2.9	608	33	5.5 %
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	2	0.1 %
United States	-6.1	1.5	50 999	923	1.8 %
<b>Average</b>					
<b>EGA Member (13)</b>	-4.7	1.6	23 941	864	2.3 %

Source: de Melo and Vijil (2014)

- Total Davos : **11 Billion USD of additional imports if tariffs are completely eliminated on an MFN basis.** (Price elasticities at HS-6 level from Kee et al. (2011))
- EU (extra-EU imports): 982 Million USD (small increase of 1.4 %).
- **Highest import responses for China, Korea and New-Zealand.**

## Import response to tariff reductions by income group (II)

Green goods lists by country group		Elasticities	Applied MFN Tariff (s.a.)	Initial imports*	50 %		100 %	
					Add. Imports*	Var.	Add. Imports*	Var.
APEC list	HIC (18)	-4.4	2.1	12 704	149	2.1%	310	4.5 %
	UMIC (29)	-3.7	4.3	5 148	179	4.1%	391	9.2 %
	LMIC (27)	-3.6	4.2	691	32	3.2%	69	7.1 %
	LIC (21)	-2.7	5.7	67	3	4.3%	6	9.3 %
WTO list	HIC (18)	-4.1	2.9	74 223	1 335	2.4%	2 822	5.2 %
	UMIC (29)	-2.9	6.9	19 333	1 476	7.8%	3 886	20.9 %
	LMIC (27)	-2.6	6.8	5 036	342	5.8%	864	13.3 %
	LIC (21)	-1.8	8.9	688	57	7.9%	130	17.9 %

Source: de Melo and Vijil (2014)

- **Conclusion: developing countries would not be inundated by imports from industrialized countries** (as feared during Doha negotiations)
- Additional imports for a 50% tariff reduction) :
  - 2 % to 4 % for the APEC list;
  - 2 % to 8 % for the WTO list.

### 3. Getting more developing countries on board

Income group (N° countries)	EGs Tariffs only (applied MFN)				Other goods	
	APEC list		WTO list		APEC list	
	(1)	(2)	(3)	(4)	(5)	(6)
	Tariff (import weighted)	TRI	Tariff (import weighted)	TRI	Tariff (import weighted)	TRI
<b>HIC (18)</b>	2,2	3,1	2,9	3,8	3,7	15,8
<b>UMIC (29)</b>	4,5	6,2	8,9	12,5	8,0	12,9
<b>LMIC (27)</b>	3,7	4,9	7,5	10,3	7,8	14,6
<b>LIC (21)</b>	5,2	6,6	12,8	15,4	13,4	19,2

Source: de Melo and Vijil (2014)

#### • Tariffs EGs < non-EGs:

- **mainly intermediate goods** so lower tariff due opposition to protection by downstream sectors;
- **few tariff peaks**, suggesting mercantilistic behaviour (no country will put on list products with tariff peaks) in the choice of products (Balineau and de Melo; 2013).

• **Conclusion: For EGA benefits, developing countries to participate** but tariffs barely high enough for engaging in a bilateral barter by a request-and-offer approach (as it was the case in the old times of the GATT) so prospects for participation rather low.

## **II. Implementation Challenges to concretize significant gains**

- 1. Dealing with “ex-outs”**
- 2. Reducing uncertainty on duty applied to EGs through trade facilitation**
- 3. Addressing non-tariff barriers**
- 4. Reducing barriers to trade in environmental services**

# 1. Dealing with “ex-outs”

- ▶ EGs are mainly intermediate goods.
- ▶ While trade liberalization is negotiated at the **HS-6 level**, sometimes the line contains a **wide range of goods with multiple usages or no environmental usage at all**.
- ▶ **“Ex-outs”**: a description which needs to be matched with NTLs by customs administrations to identify, within an HS-6 line, the EG that will benefit from the tariff reduction.
- ▶ Learning from APEC initiative: **“ex-outs” may be a burden for customs**
  - ◆ *specify by application → impractical for customs to verify the end use of the good*
  - ◆ *unclear description → unclear NTL code → wrong tariff rate*
  - ◆ *unclear description → difficulties in making decision → time delays*

⇒ **Costly uncertainty for traders** : tariffs can be high (35% max).

⇒ **Economic benefits of EGA may be substantially reduced if “ex-outs” apply**: implementation may vary between Members due to differences in interpretation and complexity of custom classifications (130 NTL on average by EGA Member for the 54 EGs list).

## 2. Reducing uncertainty on duties applied to EGs through trade facilitation

- ▶ **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.**
- ▶ **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).*
- ▶ **Ex.: 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.*

**=> TFA: provide higher predictability for traders on the implementation of EGA?**

### 3. Addressing non-tariff barriers (I)

	EGs (Tariffs+AVEs of NTBs)			
	APEC list		WTO list	
	(1)	(2)	(3)	(4)
	Tariff + NTBs (import weighted)	TRI	Tariff + NTBs (import weighted)	TRI
Australia	8,5	27,7	12,6	55,5
Canada	n.a.	n.a.	12,2	68,4
China	1,6	5,3	15,0	47,4
Costa Rica	n.a.	n.a.	n.a.	n.a.
European Union	n.a.	n.a.	0,0	1,1
Hong Kong, China	0,0	0,0	0,2	4,6
Japan	0,1	0,9	4,2	18,1
Korea, Rep,	n.a.	n.a.	n.a.	n.a.
New Zealand	15,5	34,0	12,7	31,7
Norway	n.a.	n.a.	0,0	0,1
Singapore	12,9	25,2	34,9	91,7
Switzerland	1,8	9,2	3,2	18,6
United States	1,6	15,8	7,8	55,4
<b>Average EGA country</b>	<b>5,2</b>	<b>14,8</b>	<b>9,3</b>	<b>35,7</b>

• Many applied tariffs = 0: **little to offer unless NTBs are covered.**

• Evidence suggests that **NTBs have a greater impact on trade volumes than tariffs.**

• 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).

#### Caution

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).

Source: de Melo and Vijil (2014)

### 3. Addressing non-tariff barriers (II)

Income group (number of countries)	Overall protection (Tariffs+AVEs of NTBs)					
	EGs				Other goods	
	APEC list		WTO list		APEC list	
	(1)	(2)	(3)	(4)	(5)	(6)
Tariff + NTBs (import weighted)	TRI	Tariff + NTBs (import weighted)	TRI	Tariff + NTBs (import weighted)	TRI	
<b>HIC (14)</b>	5,8	16,1	6,9	29,1	7,0	30,4
<b>UMIC (23)</b>	13,8	25,2	18,6	41,9	17,0	42,7
<b>LMIC (23)</b>	30,2	52,2	23,9	40,7	19,6	44,8
<b>LIC (10)</b>	40,5	70,2	16,7	33,1	10,7	25,6

Source: de Melo and Vijil (2014)

•NTBs AVEs: high and decreasing by income group.

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

=> Significant benefits from international regulatory cooperation on regulations, standards, testing and certification procedures, particularly for emerging new technologies (Easier to obtain cooperation in the context of the small group of countries in the EGA?)



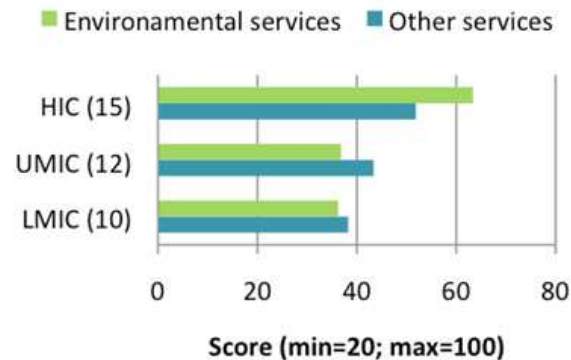
## 4. Reducing barriers to trade in environmental services (I)

- ▶ Greatest challenge facing EGA (not on negotiation agenda) as strong complementarities between Trade in EGs and trade in ESs (embodied in environmental projects)
- ▶ Trade liberalization is to result in increasing trade in tasks (services) as opposed to increasing trade in goods (many operators integrate the supply of ESs with the importation of EGs) = > **removing barriers to trade in services is necessary**.
- ▶ Evidence suggests that **trade costs in services could be 2 to 3 times higher than those for trade in goods** (Miroudot et al., 2013) .
- ▶ Challenging to measure the level of restrictiveness in ESs trade (attempts from OECD and WB STRI): **applied services policies less restrictive than GATS and FTAs bound commitments**.
- ▶ Current identification of ESs (W/120 list based on CPC codes): (i) Sewage services; (ii) refuse disposal services; (iii) sanitation and similar sectors; (iv) and other services (cleaning services for exhaust gases, noise abatement services, nature and landscape protection services, and other services). Important ESs for environment are classified elsewhere on 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 and other important services classified elsewhere necessary for implementing environmental projects. Ex: In wind and biomass power generation-related sector, 25 discrete services activities are needed (Barnabe 2014)

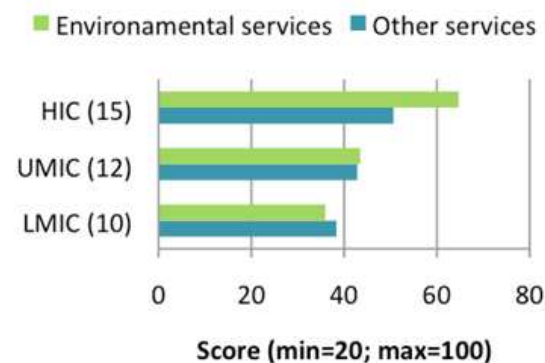
## 4. Reducing barriers to trade in environmental services (II)

### GATS commitments: ESs versus non-ESs

1a. ES: narrow definition



1b. ES: wide definition



Source: de Melo and Vijil (2014)

- **Developing countries 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** (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;
- widening ESs definition to non-traditional ES classified elsewhere.

### III. Conclusions and next steps

- ▶ **EGA: potential for significant tariff reductions for China, Korea, New-Zeland but potentially costly uncertainty for traders if “ex-outs” are maintained.**
  
- ▶ Translating the EGA into significant gains: (i) eliminate tariffs; (ii) get plurilateral status; (iii) **implement the WTO Trade Facilitation Agreement;** (iv) **tackle NTBs** related to trade in goods and **barriers related to trade in services.**
  
- ▶ **Necessary steps for EGA to concretise:**
  1. *Elimination of all tariffs 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 by more countries (already on the way), 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 EGA?*
  4. *Tackling non-tariff barriers, recognizing that an agreement on their identification and reduction will be difficult.*
  
- ▶ Liberalization of a large range of environmental services with a degree of commitment close to the deepest in RTAs.

## References

*Balineau, G. and J de Melo (2013) "Removing Barriers to Trade on Environmental Goods: An Appraisal", World Trade Review, 2013, 12(4),*

*Bernabe, J. (2104) " The Importance of Services for the Delivery of Environmental Goods: Implications for Trade Policy Negotiations", ICSTD*

*Kee, H., A. Nicita and M. Olarreaga (2009), "Estimating Trade Restrictiveness Indices ", The Economic Journal, 90(4), 666-682.*

*Melo de, J. and M. Vijil (2014) "Barriers To Trade In Environmental Goods And Environmental Services: How Important Are They? How Much Progress At Reducing Them?", CEPR discussion paper, n° 9860, March.*

*Melo de, J. and M. Vijil (2014) "The Critical Mass Approach to Achieve a Deal on Green Goods and Services: What is on the Table? How Much to Expect ?", FERDI, document de travail P 107, June.*

*Miroudot, S., J. Sauvage and B. Shepherd (2013) "Measuring the Cost of International Trade in Services", World Trade Review, 12(4), 719-39.*