

## The role of impact assessment for international trade policy

# Governance for sustainable trade

Sustainability Impact Assessment is increasingly being used as a tool for assessing the consequences for sustainable development of international trade agreements. While theoretically, Sustainability Impact Assessment can make trade agreements more sustainable, in practice, difficulties are encountered in integrating the assessment findings into decision-making.

By Clive George and Colin Kirkpatrick

Europe's Sustainability Impact Assessment (SIA) programme was introduced during the preparations for the 1999 World Trade Organisation conference in Seattle, in response to civil society concerns about the economic, social and environmental impact of EU policies in Europe and elsewhere. As described by Europe's Trade Commissioner Pascal Lamy, later to become Director General of the World Trade Organisation, the initiative would not intrude on the authority of other countries as it aimed only to ensure that Europe's negotiators were aware of the collective preferences of European citizens (Lamy 2003). The SIA process is part of the public dialogue through which policy-makers evaluate those preferences (1).

The SIA studies use a combination of theoretical analysis, empirical evidence and extensive consultation with stakeholders to assess the likely impacts of trade liberalisation in each partner country, in each of the three sustainable development spheres. Their prime aim is to identify measures through which beneficial impacts may be maximised and adverse ones reduced or avoided. They typically examine the static equilibrium effects of traditional trade theory, adjustment effects as labour moves between economic sectors, and long term dynamic effects on growth rates and processes of social and environmental change.

The findings of the studies typically show that while some public concerns are unwarranted, others, including potentially adverse social and environmental impacts in developing countries, can be confirmed by a careful assessment of the available evidence and past experience (2). Civil society representatives have expressed considerable frustration when this has failed to stimulate a policy response (CRBM/FOEE/Greenpeace/WIDE 2006).

One explanation of the lack of policy response on the part of the EU is that the studies are not intended to influence policy directly, but indirectly through their contribution to the public dialogue. This prompts the question of whether a process that

assesses impacts in all Europe's trading partners is capable of going beyond the promotion of European collective preferences, to promote the interests of all affected citizens and contribute to stronger global or regional governance.

### Findings of the SIA studies

Over 20 SIA studies have been undertaken to date in the EU programme, covering both the Doha agenda of the World Trade Organisation (WTO) and the EU's regional and bilateral trade agreements. They assess the economic, social and environmental impacts of reducing tariffs, subsidies and non tariff barriers for agricultural products, manufactured goods and services, along with rules-based measures that include intellectual property rights, technical barriers to trade, trade facilitation, government procurement, investment, and competition policy. The last three were removed from the WTO Doha agenda at the Cancun Ministerial meeting in 2003, but may be retained in regional or bilateral negotiations.

The studies for the WTO Doha agenda began with a preliminary overview SIA, proceeded through a series of more detailed sectoral studies, and concluded with a final overview SIA (Kirkpatrick et al. 2006). Each aspect the agenda was assessed through a combination of theoretical analysis and empirical evidence from the literature. The main findings were:

- The global economic impact from static equilibrium effects is likely to be modest.
- Some countries, particularly the least developed, are likely to experience an economic welfare loss, at least in the short term.
- The potential economic benefits are likely to increase in the longer term, but the least developed countries, particularly in Sub-Saharan Africa, are the least able to respond to market opportunities and the least likely to experience these longer term gains.
- The transition period may be associated with increased unemployment or underemployment.
- Countries with high initial protection may experience a significant loss of tariff revenues, with possible negative indirect social impacts if expenditure on health, education and social support programmes is reduced.
- The impact on poverty reduction is expected to be favourable in some large developing countries, such as India and China, while in some of the poorest countries, in sub-Saharan Africa for example, poverty may worsen.
- Women tend to be among the most vulnerable to adverse im-

pacts, although opportunities also arise for higher skilled jobs and improved working conditions.

- Most of the adverse effects are likely to be short to medium term, and may be highly significant if liberalisation is rapid or not accompanied by effective social policies. These impacts may continue into the longer term in the absence of appropriate policies to support the creation of new employment opportunities.
- The impacts on climate change and global biodiversity are adverse overall.
- Local effects occur in either direction for water, air and soil quality, water quantity, soil erosion and biodiversity. Adverse effects are particularly significant in areas of high stress.
- The findings for economic impacts contrast with conventional economic expectations of trade liberalisation, mainly as a result of recent developments in economic modelling techniques, and partly because the ambitions for the Doha round have been scaled down.
- The other findings tend to confirm the concerns that have been expressed by civil society groups and developing country governments. The negotiations reached an impasse at the Hong Kong meeting at the end of 2005, and efforts to revive the process have entailed reducing the level of liberalisation to be considerably less than originally proposed. This outcome is consistent with the SIA findings, which indicate that in the absence of effective parallel measures the original proposals offer only small gains with potentially large adverse effects.
- Similar conclusions have been drawn from studies at the regional level. The SIA for the Euro-Mediterranean Free Trade Area (EMFTA) included a regional overview SIA, followed by sub-regional SIA case studies, an examination of potential mitigation and enhancement measures for key issues and sectors, and a final SIA report (IARC 2007). The conclusions of these studies indicate a lack of integration between trade policy and other initiatives, which limits the potential gains available from regional cooperation, and risks significant adverse social and environmental impacts occurring from its trade liberalisation component.

### The influence on trade policy

The European Commission (EC) has undertaken to publish positioning papers giving its response to each of the SIA studies (3). As of September 2008 responses were still not available for the final overview SIA of the WTO negotiations or for the SIA-EMFTA. Typical responses for the WTO sectoral studies indicate that they have not had a major direct influence on the EC's negotiating positions.

At the regional level there are indications that the SIA findings may have had some influence on the negotiations, via representations from civil society groups and from parliamentarians in the EU and partner countries rather than through any observable change in Europe's negotiating position. At the mul-

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tilateral level of the WTO Doha agenda negotiating positions moved towards less ambitious proposals, primarily because of limited progress in the negotiations rather than in response to the SIA findings.

These two examples are fairly typical of all the SIA studies in showing that appropriately designed trade reforms have the potential to make a significant contribution to development and poverty reduction, and, with appropriate parallel measures, can do so in an environmentally sustainable manner. It has proved difficult to realise these goals through a negotiating process in which the prime aim of each party is to maximise its own economic competitiveness in relation to the others.

The role of impact assessment is strongly influenced by the negotiation process. Each country's initial negotiating position normally aims for greater market access than is likely to be achieved in practice, and offers less liberalisation of its own markets than it may be prepared to accept. The negotiating mandate defines how far negotiators can go in relaxing these aims. The analysis on which the mandate is based must therefore be kept confidential, or the country's negotiating position would be weakened (European Commission 2002). The mandate cannot be based on a publicly conducted SIA. It must instead be based on separate analyses and consultative processes whose findings have to be kept confidential. In Europe these have been formalised under the separate procedures for Impact Assessment (IA) of all major policy proposals. The majority of impact assessments carried out under these procedures are in the public domain. For trade agreements the IA reports are for internal use and are not publicly available. The separate SIA studies are carried out subsequently as part of the public dialogue.

These two forms of impact assessment are not necessarily incompatible with each other. One contributes to the development of a negotiating mandate, while the other contributes to a public dialogue which may influence the application of that mandate. Integrating the two could in principle provide a better environment for policy learning (Ruddy/Hilty 2008), but would necessitate developing means by which the combined process would retain sufficient confidentiality to protect Europe's negotiating positions, while remaining sufficiently transparent to make a meaningful contribution to the public dialogue. →

## Possible future directions

Responsibility for avoiding adverse impacts in developing countries rests primarily with the governments of those countries. The findings of the EU studies have tended to be insufficiently specific to influence policy-makers in developing countries, and are not necessarily trusted by them. They have however highlighted areas of concern that may be studied in more depth using similar methods by each country individually in preparing its own negotiating position. The United Nations Environment Programme has led a programme to help developing countries undertake their own trade impact assessments, with the support of the EC (UNEP 2006). An expansion of such assistance would be particularly beneficial for smaller developing countries and least developed countries, which do not have the capacity to support their negotiators with detailed assessments of potential impacts. This would be insufficient in itself, since negotiating positions are often determined by the interests of key economic actors, and other issues may receive little attention even when reliable information is available. Multi-country SIA studies similar to those undertaken for the EC might help address this problem if undertaken on behalf of the wider international community, rather than being commissioned by one of the main negotiating parties. Bodies such as UNEP, UNDP, ILO, WHO, UNIDO and UNCTAD might for example form a steering committee to supervise the process, with the WTO participating as an observer.

Stronger initiatives might be possible at the regional level. In the Mediterranean region the EU and its partner countries have developed a Mediterranean Strategy for Sustainable Development. Further refinement of the sustainable development strategy, and its adoption as the defining strategy for the region, would allow trade policy to be made subordinate to sustainable development, and steered more strongly towards sustainable development goals. A similar approach might be taken for other regional agreements.

## Conclusions

Many of the studies undertaken in the EU's Sustainability Impact Assessment programme have shown that the economic benefits that have traditionally been expected from trade liberalisation are small, and that significant adverse environmental and social impacts can occur in the absence of effective parallel policies. These findings have not had a major influence on trade negotiations. The article has identified steps through which impact assessment techniques may make a stronger contribution to addressing this shortcoming.

## Annotations

- (1) For a fuller discussion of the issues discussed in this article see: George, C. / Kirkpatrick, C.: Sustainability Impact Assessment of trade agreements: from public dialogue to international governance. In: *Journal of Environmental Assessment, Policy and Management* 10, 1/2008. The article draws on work undertaken for the European Commission. The

contributions of many individuals and organisations engaged in the programme are gratefully acknowledged. The views and opinions expressed are those of the authors alone.

- (2) The reports can be accessed via the DG Trade website ([www.europa.eu.int/comm/trade](http://www.europa.eu.int/comm/trade)) and the Manchester University SIA website ([www.sia-trade.org](http://www.sia-trade.org)).
- (3) More information in the Internet: <http://ec.europa.eu/trade/issues/global/sia/studies.htm>

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