



International
Trade
Centre

TRADE IMPACT
FOR GOOD

Trading in Environmental Goods - Negotiations

State of Play - What Happened? What Next?



Facilitating Trade in Environmental Goods

- **Setting the Context -**
 - Significance of Environmental Goods Trade
 - Levels of Efforts
- **Zooming into the WTO Negotiations -**
 - Initiatives Launched
 - Challenges Faced
- **Progressing through Regional Mechanisms -**
 - Initiatives Launched
 - Progress Made

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Significance of Environmental Goods and Services Trade Negotiations

Seeking to reduce or eliminate tariff and non-tariff barriers on environmental goods and services



For Trade

➤ For Importing Countries:

Greater access to more efficient, diverse and less expensive goods, services and technologies available on the global market to facilitate green trade.

➤ For Exporting Countries:

New market opportunities (developing countries could gain access to large markets)

+

Potential to develop globally competitive industries dedicated to environmental protection/feed into sustainable value chains.



For Environment

➤ Improved access for developing countries to access high quality environmental goods in world markets leading to

- Better care for the environment in the countries + Reduced emissions
- Increased energy efficiency, and improved water and sanitation situations
- Enable to build key environmental priorities into development strategies + long term inclusive growth

Setting the Context :

Levels of Efforts

Multilateral Negotiations

- (1) Committee on Trade and Environment (CTESS)
- (2) Negotiating Group on Market Access (NGMA)
- (3) Special Session of the Council for Trade in Services (CTS - SS)

Plurilateral Negotiations

- (1) Environmental Goods Agreement (EGA)
- (2) Trade and Environmental Sustainability Structured Discussions (TESSD)
- intentions by certain participating Members to include this topic

Regional Mechanisms

- (1) Asia-Pacific Economic Cooperation (APEC)
- (2) Agreement on Climate Change, Trade and Sustainability (ACCTS)

Regional/ Bilateral Trade Agreements

- Regional Trade Agreements such as:
- ANZTEC, New Zealand - UK FTA, USMCA, EU- Singapore FTA, EU - UK FTA, modernized EFTA - Turkey FTA, etc.

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Zooming into the WTO Negotiations: Initiatives Launched

Multilateral Negotiations

- Negotiations launched as part of the Doha Development Agenda (DDA) which called for *“reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services”*

Committee on Trade and Environment (CTESS)

- Established under the Trade Negotiations Committee.
- Commenced in 2022 under Paragraph 31(iii) of the DDA to identify environmental goods of interest.

Negotiating Group on Market Access (NGMA)

- Focused on the reduction or elimination of tariffs on environmental goods, but without addressing specific issues as in the CTESS

Special Session of the Council on Trade in Services (CTS-SS)

- Dealt with environmental services - which is covered by Article XIX of the GATS.
- Members engaged in negotiations of specific commitments since 2000.

Zooming into the WTO Negotiations: Initiatives Launched

Plurilateral Negotiations

- Initiative launched by 14 participants - **for an Environmental Goods Agreement (EGA)** - with the objective of removing barriers on goods important for protecting the environment.
- Increased to **18 participants** - representing 46 WTO Members
- **18 rounds of negotiations** - exploring categories of goods to be included in the EG list.
- **Negotiations restricted to goods** - limited consideration of services or NTBs



Source: Hinrich Foundation

Zooming into the WTO Negotiations: Initiatives Launched

Plurilateral Negotiations



Source: WTO - Dec 2021

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Zooming into the WTO Negotiations: Challenges Faced : Defining Environmental Goods

Scope and Definition of Environmental Goods

➤ To date - no universally agreed upon definition.

OECD 1999 Working Definition of Environmental Goods and Services

Environmental Goods are those that “measure, prevent, limit, minimize, or correct environmental damage to water, air, and soil, as well as problems related to waste, noise and eco-systems. This includes cleaner technologies, products, and services that reduce environmental risk and minimize pollution and resource use.”

APEC Agreement (2012)

- Narrower in scope than OECD’s framing of environmental goods.
- Includes 54 product categories - that primarily cover industrial products.
- 30 percent overlap between the OECD list and APEC list.

EU Definition (2016)

Products that directly contribute to environmental protection and climate mitigation by helping clean the air and water, helping manage waste, contributing to energy efficiency, controlling air pollution, and generating renewable energy.”

Zooming into the WTO Negotiations: Challenges Faced : Defining Environmental Goods

Scope and Definition of Environmental Goods

- At the plurilateral Environmental Goods Negotiations - the definition of environmental goods formed the main crux of the negotiations.

- Starting point was to agree on a list of 10 broadly defined sectors based on environmental use.
- Participants exchanged lists of goods that they considered
 - “acceptable” in the context of a final agreement
 - “sensitive” - difficult to include for either trade or environmental reasons.
- Initial list of products under consideration was significantly largest at the outset of the negotiations.
- At its largest - the list comprised of 411 products; and then whittled down to approximately 300 product lines.
- No agreement reached on the list.



Zooming into the WTO Negotiations: Challenges Faced : Defining Environmental Goods

Scope and Definition of Environmental Goods

- No clear convergence during the CTESS
- Between 2002 and 2010 - “defining by listing approach adopted” to identify environmental goods for the agreement.

- Six lists were submitted.
- Limited overlap between these lists.
- Indication of the diverging understanding and perceptions of environmental goods.

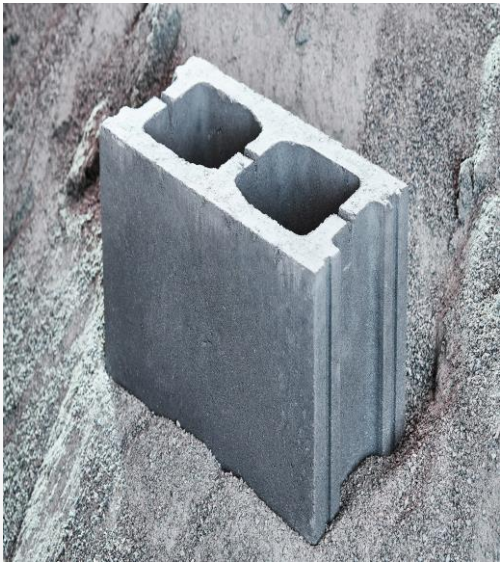
WTO Members	Number of unique subheadings (HS 2002, six-digits)	Top 2 HS chapters included in the list
Group of friends*	164	84, 90
Japan	59	87, 85
Qatar	20	84, 27
Philippines	17	84, 85
Singapore	72	90, 84
Kingdom of Saudi Arabia	259	84, 73

Zooming into the WTO Negotiations: Challenges Faced : Defining Environmental Goods

Scope and Definition of Environmental Goods

- Various issues with how to define environmental goods
- Issues such as dual use goods, and the extent to which certain goods benefitted the environment complicated matters

➤ For instance:



- Concrete can be an integral element of carbon neutral building
- **But - has negative effects on the environment.**



- Wood deemed to be better for the environment than other commonly used building materials in terms of embodied energy, air and water pollution, and greenhouse gas emissions.
- **But deforestation is an increasingly important concern, and there are national strategies to rehabilitate forests + prevent deforestation (EU Forest Strategy/Deforestation legislation)**

Zooming into the WTO Negotiations: Challenges Faced : Implementation Challenges (HS Codes)

Implementation Challenges

- Negotiations centered around “categories” of goods as defined by the World Customs Organizations HS Codes - as is the case with all WTO tariff negotiations.
- **This resulted in arguments as to whether the scope of what constituted an environmental good was too broad.**



For instance - take the case of ‘mufflers’:

- Mufflers are used in wind turbines to reduce noise. Wind turbines are clearly an environmental goods.
- But, the mufflers can also be used to reduce noise in airplanes - which do not necessarily fit this definition.



Zooming into the WTO Negotiations: Challenges Faced : Implementation Challenges (HS Codes)

Implementation Challenges

- Addressing concerns of whether what constituted an environmental good was too broad.

Options for Negotiators:

- (1) Liberalize trade in products covered under the relevant subheading and accept that the product may be used for other purposes than the intended environmental objective
- (2) Use ex-outs to narrow down the specific characteristics of the products used for environmental purposes to eliminate/reduce the multiple use issue.

Contd - example:
For mufflers - need to specify the products used for wind turbines and not airplanes.

- Ex-outs have been used in the APEC list.
- **Need to contend with possibility that there may be a long list of ex-outs - which would require high levels of administrative complexity and transaction costs.**

Zooming into the WTO Negotiations: Challenges Faced : Implementation Challenges (HS Codes)

Implementation Challenges

- Addressing concerns of whether what constituted an environmental good was too broad.

- **Customs Working Group set up in 2015 to:**
 - (a) Identify and confirm the HS classification of a nominated product; and
 - (b) Negotiate sufficiently specific product descriptions of relevant environmental goods so that ex-outs could be implemented by customs officers.
- The technical work would then be looped back to the negotiators to negotiate whether or not to include the products in question.

Should note:

- Subsequent updates to the HS nomenclature - in 2017 and 2022 could promote the EGA agenda.
- Makes further distinctions which are environmentally relevant and can facilitate monitoring of exports and imports of environmentally sensitive products.

Zooming into the WTO Negotiations: Challenges Faced : Issues Covered (Or Lack Thereof)

Scope of Negotiations

- Negotiations mainly focused on tariffs on goods.
- Environmental Services and Non-Tariff Barriers were not pursued in these negotiations.

Failure to cover NTBs

- NTBs are a significant challenge for developing countries in particular - and often is a barrier for exporters seeking to engage in international trade.
- Can include local-content requirements, opaque licensing practices, product standards and testing procedures, etc.
- In the EGA - there was a discussion on the possibility of establishing a work programme to deal with NTBs.

For Example: Minimum Energy Performance Standards/Mandatory or Voluntary Labelling Schemes

- Important as they inform the buyer about a product's environmental impacts and thereby reduce environmental damage.
- But, standards vary greatly across countries, thus imposing costs associated with conformity measures - in essence, a trade-restricting measure.
- Mutual recognition agreements would be a means of dealing with these issues.

Zooming into the WTO Negotiations: Challenges Faced : Issues Covered (Or Lack Thereof)

Scope of Negotiations

- Negotiations only focused mainly tariffs on goods.
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Failure to cover Environmental Services

- Environmental services cover
 - Infrastructure services - such as water and waste treatment
 - Non-infrastructure services - such as air pollution control.
- Environmental Services and Goods are inextricably linked - and so the **lack of environmental services in the negotiations makes it more challenging to liberalize environmental trade.**

Examples: Linkages between environmental services and goods

- Trash compactors - often have no use outside of solid-waste management.
- Solar panels - would require service providers to install and maintain the panel.

Zooming into the WTO Negotiations: Challenges Faced : Reaching the Critical Mass for Negotiations

Critical Mass for Negotiations

- Concerns about “free-riding” - based on Member States not party to the EGA negotiations being able to benefit without cutting their own tariffs.

- Plurilateral format of the EGA would require that a **critical mass** of countries trading environmental goods participate in the agreement. **This could mitigate some concerns about ‘free-riding’.**
- Critical mass was generally understood to be set at 90 percent of world trade.
- India and Brazil chose not to participate - driven by implications on their domestic industry. China’s participation was therefore, critical, to meet this ‘critical mass’.

Zooming into the WTO Negotiations: Challenges Faced : Engagement of Developing Countries

Developing Countries in EGA Negotiations

- Mainly high-income countries.
- Developing countries- only China, Costa Rica and eventually Turkey.
- No African countries participated.

- Limited participation attributed to various reasons.

(1) Type of goods covered:

- The lists developed mainly focused on industrial products.
- Most developing countries do not have well developed markets for these products - so would not expect to benefit much from having access to these markets where tariffs are already low.

(2) NTBs are a major concern

- Even if product list was expanded - for instance using the 'Environmentally Preferable Products' list - which include agricultural products - in which many developing countries have a comparative advantage in.
- But, many goods on this list call for differentiation among similar or 'like' products - which requires labelling and certification measures - and, in turn, could end up becoming barriers.

(3) Fear of surge of imports + stringent environmental policies in developed markets

- Developed markets employ more stringent environmental policies
- Developing countries need to first set up the environmental regulations and develop production capabilities in environmental goods - so limited penetration into high-income countries.
- May instead result in a surge of imports from developed markets.
- Highlights need for technology transfer and capacity building.

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Asia-Pacific Economic Cooperation

- **Agreement in 2012 -**
 - Covering 54 environmental goods (at the HS six digit level)
 - Applying tariff rates of 5% or less on this list of goods - on a voluntary basis.
- As of 2021 - 19 APEC Members are fully compliant with the environmental goods provision
- Efforts underway to expand this Agreement to reflect more recent innovations.

Progressing through regional mechanisms: Initiatives launched/underway

Agreement on Climate Change, Trade and Sustainability (ACCTs)



- Agreement seeks to
 - Remove tariffs on environment goods
 - Establish binding commitments on **environmental services**
 - Develop **guidelines to inform development and implementation of voluntary eco-labelling programmes and mechanisms to encourage their promotion and application**
- Participating countries: New Zealand, Fiji, Iceland, Norway, Costa Rica, and Switzerland.

Progressing through regional mechanisms: Initiatives launched/underway

Regional/Bilateral Trade Agreements

- From the 270 RTAs notified to the GATT or WTO between 1956 and 2016 - 129 agreements include provisions/commitments on environmental goods and services and technologies.
- **For example:**

ANZTEC

- Environmental Goods: Removed tariffs on a specific list of 132 environmental goods
- Environmental Services: Facilitates movement of business persons for sale, delivery or installation of environmental goods or supply of environmental services
- NTBs:
 - Parties will endeavour to address NTBs that impedes trade in environmental goods and services (Article 2.5 and 17.3)
 - Where NTBs identified - Joint Commission to resolve differences or disputes.



Progressing through regional mechanisms: Initiatives launched/underway

Regional/Bilateral Trade Agreements

- From the 270 RTAs notified to the GATT or WTO between 1956 and 2016 - 129 agreements include provisions/commitments on environmental goods and services and technologies.
- Provisions covered under RTAs include:

Liberalization of environmental goods/services -

including renewable energy goods and services, energy efficient products, eco-labelled goods and services, sustainable construction materials or environmental technologies

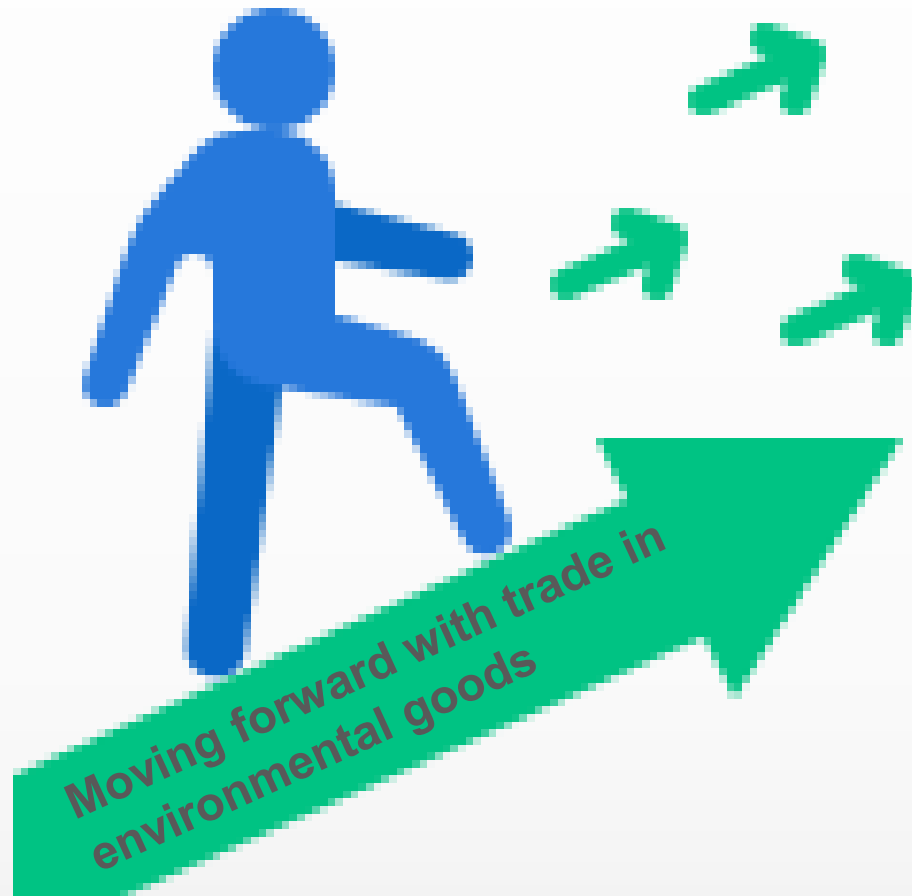
(USMCA, EU-Singapore FTA, EU-UK FTA, modernized EU-Turkey FTA)

Recognize the importance of trade and investment in EGS

(USMCA, US - Morocco FTA)

Addressing NTBs (ANZTEC, ACCTS)

Awareness and education programmes on environmental goods and services to foster trade (CARIFOUM-EU EPA)



- What lessons can be learned from the initiatives undertaken thus far?
- How can we ensure that developing countries are not left behind - but rather are an active partner in the transition to green trade?
- What issues need to be prioritised to better reflect the needs/concerns of developing countries in relation to trade in environmental goods and services?
- What is the suitable forum/space in which to make progress on these pertinent issues?