A “Critique” of the EC’s WTO Sustainability Impact Assessment Study and Recommendations for Phase III

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This paper was commissioned from Sarah Richardson of Maeander Enterprises Ltd on behalf of the following organisations: Oxfam GB, WWF-European Policy Office, Save the Children, ActionAid
Introduction

In 1999 the European Commission commissioned the University of Manchester to conduct a Sustainability Impact Assessment (SIA) of the WTO’s proposed Millennium Round. The study aims to develop a methodology for carrying out SIAs and to use this methodology to make a broad assessment of the potential impacts (positive and negative effects) upon the sustainability of the proposed New Round. In addition the study was intended to provide ideas on how best to maximise the positive impacts of the expected liberalisation or rule making.

The preliminary assessment presented in Phase II has two main purposes: (i) to resolve any remaining uncertainties concerning which impacts (from the screening and scoping stages) are to be recorded as potentially significant or non significant, and (ii) to differentiate between impacts of lesser significance (to be shown as “1”) and greater significance (to be shown as “2”) in the matrices for individual measures and in the combined matrix for the proposed new Round as a whole (involving the conversion of potentially significant impacts into a +/- 1 or +/-2). In addition, the Phase II study contains a preliminary, illustrative list of mitigatory and enhancing measures that might be adopted in order to mitigate potential negative impacts and enhance positive ones.

Oxfam GB, WWF, Save the Children and ActionAid welcome the decision of the European Commission to undertake a Sustainability Impact Assessment (SIA) of trade negotiations at the WTO. It is one of the few ongoing efforts to assess the impacts of trade liberalisation from the perspective of sustainability, including economic, environmental and social components. It is important for the European Commission and EU member states to develop a common methodology for SIAs, as these will inevitably become essential for improving transparency and accountability in EU trade policy-making. Being the first time that the sustainability impacts of an international trade agreement have been reviewed in the EU, we recognise the efforts made by the Commission to overcome the inherent complexity of such an undertaking. We appreciate this effort and the opportunity to comment on the strengths and weaknesses of the approach as it unfolds, with a view to encouraging the most effective analysis as it continues into Phase III.

Comments have been structured around four key components of assessments:

(i) Scope and structure
(ii) Timing
(iii) Sustainability Indicators
(iv) Policy Measures
Summary

(i) Scope and structure

- The framework is broad in its scope covering 15 separate issues associated with WTO liberalisation. The trade-off for this breadth is that the analysis across the 15 issues is relatively undeveloped and there is no sense of priorities.

- The framework is built on the assumption that growth will be promoted by multilateral trade liberalisation and that this is desirable. As such, a pro-liberalisation bias is built into the analysis from the start limiting consideration of alternative scenarios such as no-further trade liberalisation or trade in a different form.

- The analysis is limited to WTO liberalisation and as such does not take into account, or control for, change that might be occurring as a result of regional trade agreements, international economic forces or autonomous social or environmental factors, that might impact on the sustainability of WTO liberalisation.

- The study offers no rigorous process, including impacts of scale, to link impacts of trade-induced change to indicators of sustainability.

- The assessment of impacts, based on a five-point scale is overly simplified and the study does not offer guidance as to how judgements are made, or how to determine if an impact is more or less significant.

(ii) Timing

- The technique used for coping with uncertainty (three scenarios) needs further development.

- It might be useful to consider the addition of intermediate scenarios beyond the EU negotiating position.

- The study might develop scenario one (Uruguay Round) into a baseline scenario from where additional change can be measured and in order to learn lessons based, where possible on available empirical evidence that can be applied to the assessment of the current negotiations.

(iii) Sustainability Indicators

- The choice of indicators of sustainability are overly limited and do not apply equally to, or take into account, different situations in the different country groupings identified in the study or the different measures identified for analysis.

- There is no clear rationale presented for choosing the indicators in the study.
(iv) Policy Measures

- An SIA is not an academic exercise and the policy prescriptions and recommendations are crucial.

- There is a pro-liberalisation bias built into the selection criteria for choosing M & E measures. This is in part a function of the assumptions underlying the study, but in part built in to the criteria themselves.

- There is no allowance in the M & E measures for integrated policy options or an allowance for policy options that suggest less trade liberalisation, or different trade liberalisation.

- Priority should be given to M & E measures which can be promoted through EU programmes, policies and instruments, such as development co-operation.

1. Scope and Structure

This framework is to be commended for its attempt to be comprehensive in including and considering equally economic, environmental and social impacts flowing from trade liberalisation. In addition, the framework takes into account the fact that the concept of sustainable development is something that must be considered over the long term. It allows for the incorporation of a concern for inter-generational equity by considering how impacts vary over time, including those that take place in the long term (after 15 years).

The framework attempts to deal with the distributional effects of trade liberalisation considering impacts for three groups of countries: (i) developing countries and least developed countries, (ii) the European Union, and (iii) the world as a whole. Its separate focus on developing countries is well taken, given the disproportionate impact WTO-based liberalisation could have on that group of countries. It seeks to include distributional effects within and across countries, by the major categories of class, gender, and locale (even if the latter receives only a brief analysis in practice). This approach is encouraging as it recognises the importance of identifying differences between impacts in developing and developed countries in order to contribute to the development of policies that take into account those important variations in levels of development.

However, there are trade-offs that exist in the actual development and initial application of the framework. The study makes a useful selection of key factors and dimensions by which to guide the analysis. However, this approach could benefit from considering a few key dimensions that lie outside the overall framework as well as refocusing some of those that are included.

First, the study is built around an assumption that implicitly limits the scope of its analysis in a way that makes the methodology appear unbalanced. The focus of this framework is the new round of multilateral trade negotiations and the terms of reference for the study state that “For this exercise, it is taken as a basic working assumption that non-inflationary growth world-side will be boosted by multilateral trade liberalisation and rule making, and that this is desirable.” Instead, the SIA process should be informing political decisions on whether and when a new WTO round should start and how it should unfold, and how comprehensive it should be.
The study’s underlying assumptions thus render it unable to address the concerns of those who may feel that the pace of existing 1994 specified liberalisation is too rapid and unbalanced, given a perceived failure in some circles of the good faith implementation in the industrial world of the 1994 UR commitments. Likewise, the study is unable to address concerns that it might be time to pause the liberalisation process, in order to better analyse ex-post the impacts of existing liberalisation, if only to identify a better starting point and path for any prospective new round. Reinforced by the choice of the three scenarios, the study is also unable to address the concerns of those looking for more creative or sequential approach to liberalisation that might better encourage and support sustainability.

A second limiting factor is that fact that the framework does not take account of non-WTO drivers of trade liberalisation. In reality, the effects of WTO liberalisation will occur in an economic context that is influenced by global financial issues such as exchange rates, portfolio and direct investment flows. In addition, WTO liberalisation occurs in a trade context that is influenced by a growing number of regional trade agreements (RTA) for liberalisation proceeding simultaneously. There are occasional references to such processes as the MAI and in regard to agriculture, however they are not integrated into the analysis. The study is thus weak in its ability to identify trade induced effects in a broader economic context and thereby trace causality or even correlation with regard to any identified impacts. The demonstration of correlation or, perhaps even causality, would involve distinguishing between trade liberalisation provisions unique to the multilateral WTO, and those unique to regional agreements, and tracing the effects of each – while at the same time controlling for changing economic forces that are unrelated to any trade liberalisation agreement. At a minimum, the EU should take into consideration the bilateral and regional free trade agreements in which it is involved when assessing the impact of trade policy on third countries.

From the outset, the study ignores the fact that there are limits to sustainability, in some cases effects are irreversible, and in some instances policy intervention is urgent. It does not deal with the fact that sustainability refers to the ability of an ecosystem to maintain itself in a healthy state, given the likely pressures on and supports for it in the future. It is first threatened when increasing pressures overwhelm the existing natural regenerative capacity of the ecosystem. Further threats arise when such pressures overwhelm supports available from human intervention. The limits of sustainability are reached when such pressures overwhelm supports to the degree that they cause a compounding, irreversible deterioration in the state of the ecosystem that carries it below the level where it can sustain the life that depends upon it and recover its earlier state. Similarly, the extent of people’s ability to cope with future shocks is a key aspect of sustainability, which is not explicitly addressed in the study.

There is an implicit assumption that there is no urgency and that an indefinite future is available for impacts to be identified and remedial action to be taken. This implicit conception of a relatively resilient global environment and society which trade liberalisation is free to impact leads to a neglect of one key component of sustainability. That is, according equality to the values of trade liberalisation, environmental protection and social well being and integrating the three areas by emphasising measures that provide joint gains and avoid joint losses. There is also limited attention to the range of environmental and social agreements and institutions outside the trade sphere, and how they might be integrated into the analysis in a more balanced way.
Within this context, the study identifies economic impacts of trade liberalisation. However, it does not include a set of variables and relationships that show how economic effects of trade liberalisation are transmitted, step-by-step, into environmental and social effects. There is no consistent specification or rigorous use of such intervening processes that may determine these relationships, whether at the microeconomic level (such as production, management strategies, technology use, or industry structure) or more broadly in areas such as transportation and other physical infrastructure. The methodology offered by the Organisation for Economic Cooperation and Development (OECD) includes, for example, scale, structural, product, technology and regulatory effects. The Commission for Environmental Cooperation’s (CEC) methodology offers the linking processes of production, management and technology, physical infrastructure, social organisation and government policy. Both efforts are limited, however, by their consideration only of environmental issues as opposed to sustainability.

At a minimum this study does not offer a set of baseline data, for 1994 when the Uruguay Round took formal effect, or for 1999 to identify the state of the global environment or social well-being, and provide a foundation against which change (including change that could soon surpass critical sustainability thresholds) could be assessed. This lack of a systematic and rigorous approach to the identification of relevant environmental and social impacts results in an overall study where the hypothesised relationships that lie behind the conclusions of the preliminary assessment appear to vary across the 15 measures analysed.

More specifically, there is no systematic recognition or treatment of how population growth, along with trade generated growth will have the scale effect of increasing consumption and with it a potentially important drain on renewable and non-renewable natural resources and how this can have environmental, social and economic effects. Such increases in scale are central in a number of other methodologies. And scale effects have been found in a range of case studies and other more general empirical analyses, such as those conducted by the CEC or the OECD, to have important environmental impacts. This variable is of particular importance in assessing impacts on developing countries for which large changes in economic and population growth can have dramatic scale effects.

A consequence of this initial imbalance may well be the secondary and somewhat separate place given in the framework to the issue of “Regulatory Framework and Regulatory Impacts.” This category of factors is set apart from the core model and is thereby treated more as a mitigating measure rather than as a causal factor. This may reflect the difficulty economists have in incorporating regulatory factors into their quantitatively based models. It may, however, result in a failure to give adequate attention to this key feature. This is particularly important as in a number of areas in the detailed analysis (such as investment) the extent and effectiveness of the regulatory framework at the national and international level is central to determining sustainability impacts.

A further feature is the metric for assigning significant impacts – a scale of +/- 1 and +/- 2 – that has been selected to capture their economic, environmental and social impacts. Such a five point scale (including a zero value) has the advantage of being appropriate to the level of uncertainty about impacts at this stage and in assuming that impacts can be equally good or bad. But the seemingly arbitrary compression of possible impacts into a limited five-point range may mean that much, more finely graded variation may be missed, and that the possibility of step-level, exponential gains or losses may be ignored. There may be further difficulties in the application of this five-point scale. It is
unclear how it would be applied to specific indicators (such as average formal education levels) given the widely varying distributions in such indicators. Moreover, its general, highly aggregated character may allow for arbitrariness in the scores that are applied. It is also not clear how the study would aggregate the scores obtained in economic, social, and environmental impacts into a single figure on “sustainability”. In other words, if economics ranks at “+2” and social and environmental impacts each rank at “-1”, is the sustainability impact “0”? 

A more useful approach would be to allow impacts to be measured according to a much broader and even open-ended scale, with stronger empirical referents to identify the actual range and level of data that exist. It should also include a clear explanation of how the scores are aggregated across the three dimensions of sustainability.

In addition, there are ambiguities surrounding the use of the concept of “significant” impacts. What is of little significance for some groups within countries may be highly significant for others. The criteria that define “significant” do not include “irreversibility”. A rapid rate of change may be important, from a precautionary and preventative perspective, even if the level is still low. And again, it is difficult to know what changes are significant unless one first knows the existing state of the environment or social norms and sustainability thresholds.

2. Timing

The SIA framework as developed is forward looking, based on the assumption that a comprehensive new round of WTO negotiations would be launched in Seattle. The study should be commended for taking up the difficult task of undertaking an *ex-ante* assessment of a proposed new round of multilateral trade negotiations. It begins at a very early stage in the process, prior to the decision to launch a new round, set a new agenda, process and timetable for it, and open the negotiations. As such it is designed with the possibility of helping the EU shape the negotiating agenda (and implicitly helps outside parties do the same). However, it is also undertaken with the uncertainty of fluid national positions, including those of the EU, at a time when the agenda has not been specified in any detail. To cope with this uncertainty, the framework considers three scenarios: (i) the *status quo* (no new liberalisation); (ii) liberalisation based on the EU’s initial position; and, (iii) far reaching liberalisation without commensurate improvements in environmental and sustainability protection.

This technique is interesting in its approach to the uncertainty inherent in negotiations that have not yet even begun, let alone been completed. However there are some dangers inherent in this approach which might be addressed in the future to maximise the credibility of the findings. For example, scenario (iii), which seems to mean or imply virtually full free trade introduced without any environmental and social provisions, seems well beyond what any new Millennium Round could reasonably be expected to contemplate or achieve. With respect to a number of measures, the one of the three scenarios that systematically receives the highest score is the intermediate scenario that remains relatively unspecified or fluid in many key respects. Coupled with the relatively unsystematic grading exercise, and juxtaposed against the “full liberalisation” scenario which is somewhat disembodied in this context, there is even a danger that the methodology and its findings may be viewed in some circles as an attempt to secure support for a particular position, rather than provide a more neutral method which all parties and stakeholders can trust, develop and apply.
In addition, the three existing scenarios are built around the EU position in the negotiations as the intermediate scenario. It might be useful to include at least one other intermediate scenario, that relates to the positions of other key countries or groupings of countries with important stakes in sustainability, such as developing countries and LDCs. Alternatively, an intermediate scenario could be built around the “built-in” agenda of the WTO. Additional scenarios would have to be selected with a view to enriching the exercise, but at the same time, realising that it must remain a manageable task.

While it is essential to try to anticipate the sustainability impacts of future multilateral trade agreements, in order to offset negative impacts and maximise positive impacts and to effectively and credibly project prospective impacts of an uncertain round of negotiations, it is equally important to learn from the experience of implementing existing agreements by retrospectively examining their sustainability impacts. To this end, an *ex-post* assessment of the Uruguay Round and the rate of liberalisation and impacts of the existing trade regime would be helpful in informing future phases of this current assessment exercise, particularly with regard to developing credible avenues for linking trade-induced change to indicators of sustainability, based on experience.

To the extent that it included the collection of reliable data, such an exercise would also be important to establish a baseline from which credible judgements on the future effects of trade liberalisation can be made. In theory at least, the study’s scenario (i) should, in practice, be an *ex-post* analysis – that is, what are the effects of no new liberalisation – essentially, the Uruguay Round. There are now five years of data available in the years following the agreement. This provides an opportunity to go beyond general, disembodied judgements of potential impacts of this scenario to create a baseline from which informed judgements and linkages between the various dimensions of sustainability, based on evidence, could be made as the study moves into the future.

### 3. Sustainability Indicators

The study notes the wide range of indicators available to study sustainability impacts. It chooses to focus on three for each of the three key areas of sustainable development: economic impacts, environmental impacts and social impacts. While the task of selecting indicators for use in such a broad exercise is admittedly very difficult, by focusing on three indicators in each impact area, one is left with a relatively limited concept of economic, social and environmental impacts, with varying degrees of relevance to the measures under consideration in the study. In addition, it is unclear what rationale was used to choose the select group of indicators.

Second, there is little reference in the assessment to the selected indicators as being determinants for the significance or lack thereof, or potential impacts. For example, while gender has been selected as a key indicator of social impacts, there is virtually no reference to it in any of the detailed treatment of the 15 trade measures and on the particular impacts that they might have. There is similarly little reference to poverty, children (despite their importance to the issue of inter-generational equity) or other identified indicators in the preliminary assessment. Rather, broad impacts are suggested from existing literature that bear little relation to the key indicators identified. It is therefore unclear how the chosen indicators are feeding into the assessment, at what levels of disaggregation, how one would use them to indicate whether impacts are significant or non-significant, and what sorts of impacts are influencing the ranking of the measure in the matrix that follows each section. In addition, while the framework includes cumulative, feedback and indirect effects, along with direct linear ones, in practice it is difficult to see how these cumulative and interactive impacts take place.
In short, if the study identifies a limited set of key indicators for analysis, then these indicators should be linked clearly and closely to the preliminary assessment of significance of impacts. Alternatively, it might be useful in this regard to develop criteria for selecting the indicators most relevant to the particular measure under examination, drawing on the full range of sustainability indicators available at the national and international levels.

4. **Policy Measures**

The study includes an analysis addressing mitigatory and enhancing measures, also referred to in the report as “flanking” measures. It is proposed that the findings of the preliminary SIA will reveal where the potential need for mitigatory measures to reduce or eliminate significant negative impacts is most likely to arise, or where some of the beneficial scenarios may be enhanced. The study includes overall principles to guide the use of such measures including sustainable development, regulatory harmonisation, development interests and policy co-ordination and coherence. In addition, the study points to six general criteria to guide the selection of measures: (i) relevance, (ii) workable, (iii) cost-effective, (iv) WTO compatible but not necessarily WTO led, (v) coherent, and (vi) complementary to other sustainable development initiatives. Finally, the Phase II report suggests a method for selecting measures that includes identifying the key impacts to be addressed, applying the criteria to possible measures and consolidating findings in an overall mitigation/enhancement strategy.

The guiding principles and the selection criteria associated with the mitigatory and enhancing measures suggest a pro-liberalisation bias built into the analysis. The requirement for a measure to be “WTO compatible” is not paralleled by a similar reference to multilateral environmental agreements or social conventions as an adequate standard against which measures might be considered. The analysis thereby accepts implicitly the existing multilateral trade regime as the legitimate and adequate standard with which all mitigating policy options must be compatible. In this way, it omits at the outset, consideration of policy options that might either slow the pace of liberalisation, amend the terms of the liberalisation against the existing trade regime to incorporate sustainable development concerns, or indeed a no-trade option in certain circumstances. A similar bias appears in the “Guiding Principles” where references to sustainable development and policy coherence are related back to their specific inclusion in the Uruguay Round Agreements, as opposed to their place as legitimate avenues for broader incorporation in their own right. In addition, the principles speak to the advantage of “as much coherence and harmonisation as possible” as a means of facilitating trade, without specifying the need for upward harmonisation, stronger national standards or the advantages of diversity in standards among countries, as means for protecting and enhancing both the environment and social structures at the national level.

A selection of potential mitigatory and enhancing measures have been included in a matrix in the Phase II report. The measures proposed range from measures that can be taken at the national level (such as strengthening of domestic regulatory regimes for services or anti-competitive practices) to measures that can be taken at the regional or international levels (such as technical assistance for capacity building to strengthen trade management in developing countries, to support compliance with the provisions of the TRIPs agreement or to enable developing country participation in the preparation of international standards). In some cases the measures include integrated approaches such as ensuring that a sustainable development dimension is included in a rules framework for governing international
investment, including the impact of foreign investment on the environment and labour conditions. In others, however, such as under “Trade and Environment”, where one measure suggested is that “economic gains could be obtained from not implementing MEAs”, the implication remains that the balance of the three components of sustainability is biased in favour of economic considerations. Such a measure ignores the fact that MEAs are the result of lengthy negotiations among countries, and that their status is equal to any WTO agreement.

At present, the mitigatory measures in the study are included at a level of generality that, without further analysis, add little to the existing literature and provide little guidance for their implementation at either the national or international levels. Despite this, the breadth of the measures identified in Phase II are useful in that they have the potential to capture a number of the possible impacts of a proposed new round. However, a more detailed and more focused analysis is required to identify which “flanking” policies proposed address what impacts. At the national levels, “flanking” policies are put forward in vague and general terms so as to make their application in practice difficult where they intended to target specific impacts. This follows from the general nature of the assessment of the impacts themselves and their uncertain connection to specific indicators, in particular those identified in the study.

It might be useful in Phase III to consider the OECD’s “menu” of possible policy responses generated from assessments. In general, the OECD points to three levels of policy response: (OECD 1994)

- Modification of some aspects of the trade measure or agreement.
- Safeguards within a trade agreement.
- The implementation of complementary economic, environmental and social policies (“flanking measures”).

Such a grouping would encourage the consideration of sustainable trade policies, as opposed to after-the-fact M & E measures that now exists. It might also encourage broader solutions based on the fact that sustainable development in theory encourages the building in of relevant policies to produce integrated decision-making. It is notable that existing international attempts to construct such synergies between policy areas are not addressed in this study. For example, the environment and sustainability provisions in regional trade agreements such as NAFTA, and the relationship of such processes to the WTO might be a useful point for consideration. With the exception of the suggestion on investment and proposals for capacity building at the regional and international levels, there is little consideration in the SIA study of international or integrated processes (one of the key benefits of conducting an ex-ante analysis) as opposed to after-the-fact flanking processes at the national level.

In addition, there is no reference made to how the EU itself could use its own instruments (including development co-operation) to support M& E measures in developing countries. This lack of reference in the report to how the EU can promote M&E measures is a reflection of the lack of coherence among different policies, particularly trade, development and environmental policies. The report should identify concrete actions that can be taken by the EU to minimise the negative impacts of trade as well as to enhance any positive impacts. A regional SIA would facilitate the identification of M& E measures that the EU could support, since most of EU development co-operation is conducted on a regional and sub-regional basis.
5. Phase III

The European Commission (DG-Trade) is considering launching Phase III of the SIA, which would include agriculture and services, and possibly in-depth studies on other sectors (such as fisheries and forests).

Given that the purpose of Phase II was to provide a broad assessment of potentially significant impacts, it is appropriate that Phase III build on this foundation and develop the methodology to allow for a more detailed analysis of the measures under consideration. By doing so, Phase III can contribute in a meaningful way to an increased understanding of the impact of trade liberalisation and sustainable development, poverty reduction and environmental protection. The following suggestions for further work are put forward in order to encourage such effective SIA work in Phase III and to ensure that trade liberalisation does not undermine, but rather promotes, sustainable development:

- Resources could usefully be applied to research and assess ex-post the impact of existing Uruguay Round Agreements on sustainable development, including their implications for poverty alleviation and environmental protection, in order to inform the direction of the current assessment and future negotiations at the WTO. Within the approach, this seems like the natural role of the “no-new-liberalisation” section in each measure analysis. Such an analysis would highlight interaction between the three components of sustainability and generate data that could serve as a baseline from which further impacts could be assessed or measured.

- Adoption of a regional and even sub-regional approach so that the results of the SIA are more concrete and its recommendations can foster policy coherence across different EU external policies vis-à-vis regional groupings of countries. This would clearly facilitate the deployment of a range of instruments (including development co-operation and technical assistance) available in the EU to enhance the positive impacts of trade liberalisation and mitigate the negative effects both within the EU and in third countries (especially in LDCs);

- In order to maximise the lessons that can be learned from the application of this study, and to build confidence in this approach, attention should be paid to specifying more clearly the variables and relationships that link trade-induced economic change in a causal or correlative way to environmental and social impacts. At this point in the development of the methodology it might be useful to focus, as a scenario, on the immediate “built-in” agenda for prospective new negotiations. In this way, the operational application of the methodology can be tested and refined, variables can be developed to effectively link trade-induced economic change to the environment and social well being, and concrete, specific and focused mitigating and enhancing measures can be developed. This would have the added advantage of focusing empirical and analytic work on the two key sectors of agriculture and services where, respectively, environmental and social impacts are known to be profound and where important uncharted opportunities exist.

- New sectors not covered by Phase II such as fisheries, forests and manufactures should be included in Phase III, while undertaking an in-depth assessment of agriculture and services as part of the
build-in agenda at the WTO. Special attention should be given to special social groups such as children, indigenous people and women in both developing and developed countries.

This effort undertaken by the EU, through the University of Manchester, is important at a general level for its contribution to the ongoing efforts to understand the linkages necessary for developing effective SIAs. We encourage the European Commission to continue, and further develop the important work to assess the sustainability impact of WTO agreements. We believe that the effectiveness of the SIA process in shaping EU trade policies in support of sustainable development will be substantially increased if the suggestions made above are embraced and adopted. We look forward to further avenues for participation in the development of the methodology as it proceeds into Phase III.