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## **EU TRADE STRATEGY AND REGIONALISM: ASSESSING THE IMPACT ON EUROPE'S DEVELOPING COUNTRY PARTNERS<sup>1</sup>**

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## 1. Introduction

There has been a resurgence of regionalism in world trade over the past decade and a half, such that almost all countries are members of at least one agreement and many are party to multiple agreements. This 'second wave' of regionalism differs from the growth in regionalism that occurred in the 1960s, with the inclusion of trade in services and the 'deepening' of the agreements to include 'behind the border' regulatory issues, including investment, competition, trade facilitation and technical barriers as key components of recent regional trade negotiations. The European Union has been fully engaged in this proliferation of regional trade agreements (RTAs) in the world economy, and has actively sought to form new FTAs all over the world. By 2007 the EU was a party to over 40 RTAs, compared to 18 at the beginning of the 1990s. The EU's increased interest in negotiating regional trade agreements has triggered what Baldwin (1997) has called the 'domino effect' where non participating countries seek to join the EU regional trade initiatives from fear of being excluded from the EU market.

In many cases, Europe's regional trade negotiations are with developing economies. Soon after its formation, the EC built up a network of regional agreements with countries in the Euro-Mediterranean area and with the ACP countries.<sup>2</sup> Subsequently, the Commission has opened regional trade negotiations with in South and Central America, South, South East and East Asia and the Middle East.<sup>3</sup>

This paper examines the implications of Europe's regional trade strategy with developing countries. In particular, it seeks to identify the underlying objectives of Europe's regional trade strategy and to assess the extent to which these objectives are complementary to the development goals of partner countries. We suggest that Europe's trade negotiation objectives will not always be compatible with the long term sustainable development goals of the regional partners and substantiate our argument by a detailed assessment of the EU's regional trade negotiations in the Euro Mediterranean FTA and the proposed EU Mercosur trade agreement. This leads to the proposal that there should

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<sup>2</sup> Since 1993, the EU has been negotiating Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) countries.

<sup>3</sup> In addition there have been a number of Neighbourhood trade agreements with transitional economies in Eastern and South East Europe.

be a further strengthening of existing procedures for the **ex ante** identification of potential adverse impacts of trade agreements, that the Commission should be more transparent and proactive in addressing these adverse impacts through appropriate mitigation policy measures, and that mechanisms should be put in place for the on-going monitoring and evaluation of EU regional trade agreements.

There are five sections to the paper. This introduction is following by a summary of the EU's recent trade strategy Communication, 'Global Europe: Competing in the World', which emphasises the contribution such agreements can make to Europe's competitiveness and economic performance. This new strategy is then compared to Europe's previous trade objectives that emphasised the integration of trade policy with the broader goals of sustainable development. Section 3 summarises the findings of the Sustainability Impact Assessment (SIA) studies for the European- Mediterranean FTA and the EU – Mercosur trade negotiations, highlighting the trade offs between the economic efficiency and growth gains and environmental and social losses resulting from trade liberalisation. Section 4 assesses the influence that the SIA analyses have had on policy and decision making processes within the European Commission. Finally, section 5 provides a summary and conclusions.

## **2. The EU's New Trade Strategy and Regionalism**

In October 2006 the EC issued a Communication titled 'Global Europe: Competing in the World: A Contribution to the EU's Growth and Jobs Strategy' (EC, 2006a). The purpose of the Communication is stated to be:

'... to set out the contribution of trade policy to stimulating growth and creating jobs in Europe. It sets out how, in a rapidly changing global economy, we can build a more comprehensive, integrated and forward-looking external trade policy that makes a stronger contribution to Europe's competitiveness. It stresses the need to adapt the tools of EU trade policy to new challenges, to engage with new partners, and to ensure Europe remains open to the world and other markets to us' (EC, 2006a, page 3).

With respect to regional trade agreements, the Communication notes that, 'if approached with care', FTAs can:

'build on WTO and other international rules by going further and faster in promoting openness and integration, by tackling issues which are not ready for

multilateral discussion and by preparing the ground for the next level of multilateral liberalisation. Many key issues, including investment, public procurement, competition, other regulatory issues and IPR enforcement, which remain outside the WTO at this time can be addressed through FTAs.’ (EC, 2006a:8).

In terms of content, the new ‘competitiveness-driven’ FTAs will aim to achieve:

‘ the highest possible degree of trade liberalisation including far-reaching liberalisation of services and investment....we should continue to factor other issues and the wider role of trade policy in EU external relations into bilateral trade developments. But in order for trade policy to help create jobs and drive growth, economic factors must play a primary role in the choice of future FTAs.’ (EC, 2006a:9).

To ‘factor other issues and the wider role of trade policy’ the Commission proposes that these issues should be included in the impact assessment that is conducted before deciding to launch FTA negotiations.

The focus in the EC’s new trade strategy on ‘competitiveness – driven’ FTAs can be compared with the stated goals EU trade policy during the first half of the decade when Pascal Lamy was Trade Commissioner. Partly in response to the concerns and protests of some elements of civil society against the WTO multilateral trade negotiations, and globalisation more generally, Lamy stressed the need to integrate EU trade policy with the Europe’s broader role in the global economy. In a report at the end of his tenure as EU Trade Commissioner, Lamy noted that ‘the opening of markets is not an end in itself, but is a way of making progress. Moreover, while necessary, market opening is not sufficient. It does not by itself ensure development. Internal policies have to be right too, not least to ensure that the distribution of its benefits is more equitable’ (EC, 2004:3). The Communication also stated that EU trade policy aims are to ‘use trade to leverage sustainable development in multilateral and bilateral negotiations and mitigate possible negative impacts of trade opening through technical assistance and development aid’.

During the 1990s civil society organisations expressed increasing concern over the potentially adverse effects of further trade liberalisation on the natural environment, on employment levels and wage rates in high income countries as well as low income ones, and on the development process in developing countries. Concerns which had arisen

during the development of the North American Free Trade Agreement between the USA, Canada and Mexico became a major issue for the WTO negotiations in Seattle. After the failure of the Seattle meeting the subsequent Doha agenda for the WTO negotiations was defined as a development agenda, with sustainable development as a key goal.

In 1999, the Commission formally integrated the goal of sustainable development into its internal trade policy processes by committing itself to undertaking a Sustainability Impact Assessment (SIA) of all EU trade negotiations. In response to mounting concerns within civil society during the preparations for the WTO Ministerial Seattle meeting in Seattle, the European Commission initiated a preliminary assessment of the impacts on sustainable development in its trading partners and in Europe of the proposed negotiations. This involved extensive stakeholder consultation in parallel with technical analysis, in order to provide objective information for stakeholder dialogue as well as for the negotiation process. The methodology was developed in early 1999 (Kirkpatrick, Lee and Morrissey 1999), and an overview assessment of the Seattle agenda was undertaken prior to the WTO Ministerial Meeting in November 1999 (Kirkpatrick and Lee 1999). This initial analysis indicated that while an overall economic benefit could be expected, many of the issues that had been raised were genuine cause for concern, and would need fuller investigation during the negotiations. Following further development and refinement of the SIA methodology (Kirkpatrick and Lee 2002), the European Commission launched more detailed assessments of all aspects of the Doha agenda and those regional trade negotiations and agreements to which the EU is a party.

Close to twenty SIA studies have been undertaken to date by a range of external organisations.<sup>4</sup> From the outset the SIA programme has stimulated much debate and criticism associated with civil society concerns over the trade liberalisation agenda (WWF 2002, SUSTRA 2003). Many detailed lessons have been learned, and have contributed to ongoing refinement of the SIA methodology and its application (Kirkpatrick and George 2006, George and Goldsmith 2006). Further civil society contributions have maintained the pressure to strengthen the process, to enhance its relevance to decision-making and to embed it more fully in the formulation of trade policy (RSPB and Birdlife

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<sup>4</sup> All SIA studies have been undertaken by external consultants, on a contracted basis. The reports can be accessed on the DG Trade website.

International 2003, WIDE 2004, Solidar 2005, CRBM, FOEE, Greenpeace and WIDE 2006). The EC has held two international conferences to review experience and further develop the process (European Commission 2003, 2006b).

It remains to be seen if the realignment of the EC's trade strategy towards 'competitiveness driven' FTAs will weaken or displace the previous commitment to broader issues of sustainable development, and how the Commission will address the challenge of reconciling the competitiveness and sustainable development goals for EU trade policy<sup>5</sup> and if the promised safeguards are implemented.<sup>6</sup>

. In the next section we evaluate the EC's performance so far in mainstreaming sustainable development objectives into trade policy. Our approach is to assess the results of the SIA programme in relation to two regional agreements, the European-Mediterranean FTA (EMFTA) and the proposed EU- Mercosur trade agreement. We begin by summarising the results of the SIA analysis. In both cases, we identify the potential trade offs between the goal of economic competitiveness and the goal of sustainable development, and then discuss the measures that might be introduced to offset or mitigate the potential trade offs.

### 3. Sustainability Impact Assessment (SIA) Findings: EMFTA and EU-Mercosur

#### EU-Mercosur SIA

The European Union has long established cultural, political and economic links with countries in Latin America and starting in the 1960's, developed political and trade relations as well as cooperation agreements with countries in the region. The EU has encouraged the strengthening of regional integration schemes and has supported Mercosur initiative right from its inception in 1991. A major step towards the beginning

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<sup>5</sup> The same tension between competitiveness and sustainable development is evident in the EC's general Impact Assessment (IA) procedures. See Franz and Kirkpatrick (2006a,b) for a discussion of these issues.

<sup>6</sup> The 2006 Communication makes a commitment to 'put in place internal mechanisms to monitor the implementation and results of new FTAs.'

of official trade negotiations occurred in December 1995, when Mercosur officially converted itself from a free trade area to a customs union, and simultaneously, the EU and Mercosur signed the EU-Mercosur Interregional Framework for Cooperation Agreement. The agreement was based on three pillars - political dialogue, cooperation and trade issues - and its objective was to create a framework for negotiations on an Interregional Association Agreement which should include full liberalization of trade in goods and services in conformity with WTO rules, enhanced forms of co-operation and strengthened political dialogue. The negotiations for an Association Agreement between the EU and Mercosur began in June 2000. A Trade SIA of the Mercosur – EU Association Agreement was commissioned by the European Commission in 2006 in the context of a significant stall in the negotiation process following the failure to conclude the Agreement by the end of 2004.<sup>7</sup>

Following successive refinements in the sustainability impact assessment methodology (George and Kirkpatrick, 2004; EC, 2006) increasing use has been made of Computable General Equilibrium (CGE) modelling to provide a quantitative framework for identifying static equilibrium economic impacts and linking these to the analysis of social and environmental impacts. Some of the studies have made use of modelling results available in the literature, while in the case of EU-Mercosur a CGE modelling exercise was carried out as part of the SIA.

The scenario for the SIA covers the following elements:

- A removal of all tariffs and non-tariff barriers in agriculture and non-agricultural products
- A significant reduction of barriers in GATS mode 1 (cross-border trade), mode 2 (consumption abroad), mode 3 (commercial presence) and mode 4 (movement of people). The liberalisation assumed for mode 4 is limited to temporary employment of professional staff. Liberalisation under mode 3 includes the right of establishment for foreign direct investment (FDI) in service delivery.

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<sup>7</sup> The SIA for EU Mercosur trade negotiations is being undertaken by a consortium led by Impact Assessment Research Centre at the University of Manchester. The other members of the consortium are Chair Mercosur, Copenhagen Economics, ECOSTRAT Consultants, GRET, Land Use Consultants, Natural Resources Institute, WISE Development.

- A representation of trade facilitation measures in terms of agreement to implement a degree of simplification and greater transparency in trade procedures.

For the purpose of the CGE analysis all barriers were assumed to be removed for mode 1, with no change in the other three modes. Trade facilitation was modelled as reduction in trade costs of 1 percent.

If the scenario described above were fully implemented, the model estimates that the Mercosur countries would benefit from a welfare gain amounting to around 9 billion USD, equivalent to static economic welfare gains of the order of 0.5% GDP in Argentina, 1.5% in Brazil and 2.1% in Uruguay.<sup>8</sup> The comparative static economic model used in the SIA indicates a potentially high welfare gain in Paraguay, perhaps up to 10% of GDP. This is partly because of the high initial barriers, and partly because the export sectors which benefit from lower EU tariffs comprise a much larger proportion of the economy than the sectors which decline through higher EU imports. Most of the static welfare gains in the Mercosur countries come from goods liberalisation, with a smaller contribution from liberalising cross-border trade in services. The welfare gain captures the effect from a more efficient allocation of production factors between sectors, lower prices on imported goods and services and higher wages as the economies adjust to the new equilibrium without barriers. The welfare gain also takes into account that tariff revenues are lost.

The corresponding gain in the European Union (EU25) is around 4 billion USD (or 0.1 percent of GDP), measured at current price levels and with the current production structure and productivity levels. Trade facilitation gains account for a major part of the total welfare gains accruing to the EU. Overall, the results of the analysis show that a full free trade scenario between the two regions will lead to positive net income effects across all countries.. Trade liberalization of cross-border services in itself does not provide a significant contribution to the overall result. However, liberalizing other modes of trade in services, especially foreign establishment (FDI), constitute an important part of the

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<sup>8</sup> The CGE results are given in the final overview report to the Commission (IARC, 2007a). The study uses the Copenhagen Economics Trade Model (CRTM).

trade negotiations, and economic effects should be expected in the service sector as well as economy-wide from liberalising other modes of service trade.

Aggregate production and output will increase in both regions. However, at the sector specific level, the model predicts an overall contraction of Mercosur manufactured goods and expansion in agricultural goods, most notably so for processed foods. For the EU the effect is the reverse, i.e output of manufacturing goods will increase, while the agricultural sectors, and again processed foods, are expected to decline in relative importance.

The assessment also reveals significant negative social impacts. The potential negative social impacts of greatest concern are: (i) short to medium term impact on employment in manufacturing, with associated pressures on wage rates during the period of adjustment; (ii) a significant adverse impact on government revenues, except in Paraguay (unless compensated by raising taxes from appropriate other sources, this could have negative impacts on social, educational and health expenditure); (iii) a decline in manufacturing would raise concerns over reduced technology levels and skill levels, and could reduce the ability of Mercosur countries to promote higher incomes through industrial development; displacement of informal farmers and potentially increased use of forced labour in cattle raising.

Both positive and negative environmental impacts are expected. The main potential impacts that have been identified are (i) potential for improved environmental services, subject to continued state support and effective regulation (ii) potential for increased water pollution from agriculture and food processing, requiring stronger regulation (iii) a potentially significant adverse impact on biodiversity, exacerbated by increased demand in Europe for biofuels, particularly from Brazil. The economic modelling studies indicate a small reduction in greenhouse gas emissions from the re-allocation of production between Mercosur and the EU, countered by a larger increase due to increased international transport. Efforts to reduce EU emissions through the use of biofuels to replace fossil fuels are expected to benefit significantly from a reduction of barriers to imports of Mercosur ethanol.

The negotiations on the EU Mercosur trade agreement include domestic regulatory rules. In addition to trade facilitation measures the SIA has also analyzed the potential impact of inclusion of rule based measures related to investment provision and government procurement. The analysis indicated that incorporation of these measures has a potentially positive impact on the majority of sustainable impact indicators for both the EU and Mercosur.

The potentially negative social and environmental effects of EU – Mercosur trade liberalisation highlight significant trade offs between obtaining greater economic efficiency and achieving greater social equity and protecting the natural environment. Although the total welfare effect of an FTA is projected to be positive for both regions, the SIA identifies adverse effects for both equity and environmental protection which need to be addressed in order to maximize the potential benefits from the FTA agreement. The report concludes that a rapid and over ambitious liberalisation programme will give rise to significant economic adjustment costs, particularly for labour in the non-agricultural goods sector in Mercosur, but also in some parts of the agriculture sector in the EU. There are additional adverse social and environmental impacts. A phased process of liberalisation over a period of up to ten years provides opportunities for the potential benefits to be enhanced, by allowing labour and capital markets to respond positively to the new market opportunities presented by the phased opening of the economy, and by allowing time for the introduction of effective regulatory measures.

In assessing the potential negative impacts no allowance was made for regulatory interventions which could prevent or mitigate the negative effects attributable to trade liberalisation. International experience confirms that an effective regulatory framework is important in each of the three spheres of sustainable development in preventing or mitigating negative impacts. In the environmental sphere, the potential negative impacts can be reduced through the application of appropriate environment regulation measures on production and consumption. In the social sphere, the use of targeted assistance to labour affected by trade liberalisation restructuring can be used as an effective mitigation measure. In the economic sphere, there is robust evidence to show that the quality of the domestic regulatory environment affecting business can have a significant effect on investor confidence and on the attraction of inward direct foreign investment (Kirkpatrick, Parker and Zhang, 2006).

## EMFTA SIA

The establishment of the EMFTA is one of the central elements of the Euro-Mediterranean Partnership (EMP), formed in the Barcelona Declaration of 1995. The partnership aims to create a common area of peace, stability and shared prosperity between the European Union and the Mediterranean Partner countries (MPCs), through cooperation in three principal areas: political and safety partnership, economic and financial partnership, and social, cultural and humanitarian partnership. The EMFTA is to be achieved through a series of bilateral agreements involving the EU and 10 Mediterranean partners. Currently, every Mediterranean country involved in the EMP Partnership, except for Syria, has concluded and implemented Association Agreements with the EU.

The EMFTA SIA assesses the impact of trade liberalisation in four areas: industrial products, agriculture, services and South-South trade. Liberalisation of industrial products is as defined in the current Association Agreements between the EU and MPCs. For the other three components, the postulated scenario includes all the major issues covered by the ongoing negotiations.

For all four components of the EMFTA scenario, significant impacts will be specific to the conditions in individual countries, and will vary in particular according to the level of existing tariff and non-tariff barriers, and the proportion of EU trade in a country's total international trade. Impacts are also time dependent, with variations in both magnitude and direction between the short term, medium term and long term.

In terms of direct effects on consumer welfare, the economic impacts in MPCs are generally positive, although a small short term negative effect is possible in some countries. For industrial products, welfare is expected to rise by an average of about 0.8% of GDP, ranging from slightly less than zero in some countries, up to about 2% of GDP in others. For agriculture and services the additional welfare gain averages about 0.5% for each, with a small additional impact from south-south liberalisation. Larger increases in welfare may occur in the long term, but these are strongly dependent on

domestic reforms and investment decisions. In particular, there are large potential economic benefits from fuller regional integration, but to achieve them, other policy measures are needed in addition to south-south trade liberalisation.

The study identifies some social impacts that are beneficial in the short term as well as the long term, and others that may be significantly adverse unless effective mitigating action is taken. The potential impacts of greatest concern are:

- a significant rise in unemployment, particularly for liberalisation of EU MPC trade in industrial products and agriculture, and to a lesser extent for services and south-south liberalisation;
- a fall in wage rates associated with increased unemployment;
- a significant loss in government revenues
- consequent social impacts through reduced expenditure on health, education and social support programmes;
- greater vulnerability of poor households to fluctuations in world market prices for basic foods;
- adverse effects on the status, living standards and health of rural women, associated with accelerated conversion from traditional to commercial agriculture.

Similarly, both positive and negative environmental impacts are expected. The main potential adverse impacts that have been identified are:

- significant local impacts on water resources, soil fertility and biodiversity in areas of high existing stress;
- higher environmental stress in cities, resulting from declining rural employment and accelerated rural-urban migration;
- higher air pollution and coastal water pollution from greater international transport;
- higher waste generation from greater use of packaging materials.

Many of these potential impacts would occur primarily in the short or medium term, although this may be as long as ten to fifteen years over the full period of adjustment. Unless effective action is taken in the short term, some impacts may continue into the long term.

The impacts in the EU are generally smaller, although some significant potential adverse social impacts arise for agricultural liberalisation. These are mainly restricted to local rural areas of southern European countries, where the types of crops grown are similar to those produced in MPCs. In some areas, the affected workers will include temporary migrants from MPCs, with a knock-on effect on social issues in MPCs. Both positive and negative environmental impacts are expected. Impacts on water resources, agricultural pollution and biodiversity are generally beneficial, while those on the agricultural value and amenity value of rural environments may be adverse.

The assessment indicates an overall adverse impact on climate change and global biodiversity, arising primarily through increased transport and greenhouse gas emissions, and pressures for increased agricultural production in biologically sensitive areas in MPCs. Both of these scale effects, which arise from increased trade and increased production, can in principle be countered by technology or regulatory effects.

As in the case of the EU-Mercosur SIA, the EMFTA study indicates overall positive welfare effects for both regions. However, significant negative social and environmental effects are also expected to occur as a result of trade liberalisation, highlighting the trade offs between improved economic efficiency and achieving sustainable development goals. The main potential impact on the environment is the impact of EMFTA on water resources and liberalization of the water service sector. The SIA examined possible mitigation policies and highlights the need of conducting further research at national/local level to identify those areas where agricultural production is expected to rise and water resources are already under significant stress. In the agriculture sector the main adverse impact falls on small scale farmers and rural livelihoods. The industrial liberalisation component of the EMFTA is expected to have potentially significant adverse impacts on employment in MPCs unless mitigating action is taken.

#### **4. The Influence of SIA on EC Trade Negotiations and Policy**

What influence have the SIA analyses, and in particular the identification of likely negative impacts of regional trade liberalisation agreements, had on the trade negotiation

process? The objectives of the trade SIA programme have been specified by the European Commission as:

‘Sustainability Impact Assessment is a process undertaken before and during a trade negotiation which seeks to identify economic, social and environmental impacts of a trade agreement. The purpose of an SIA is to integrate sustainability into trade policy by informing negotiators of the possible social, environmental and economic consequences of a trade agreement. The idea is to assess how best to define a full package of domestic policies and international initiatives to yield the best possible outcome, not just in terms of liberalisation and economic growth, but also of other components of sustainable development. An SIA should also provide guidelines for the design of possible accompanying policy measures. Such measures may go beyond the field of trade as such and may have implications for internal policy, capacity building or international regulation. Accompanying measures are intended to maximise the positive impacts of the trade negotiations in question, and reduce any negative impacts.’<sup>9</sup>

The objective of SIA is therefore to ‘integrate sustainability into trade policy’, so that the implementation of the negotiated trade measures and accompanying policy measures will contribute to the ‘best possible outcome’ not just in terms of liberalisation and economic growth, but also in terms of sustainable development.<sup>10</sup>

The challenge of integrating sustainable development into trade policies and accompanying measures was discussed at an international SIA seminar organised by the European Commission in 2003, where participants called for sustainable development to be more firmly established as an overarching aim of trade negotiations (DG Trade, 2003:113). The seminar also sought clarification of the role of SIA in the negotiation process, with many participants worried that SIAs would lead only to accompanying measures to mitigate negative effects of agreements, rather than to modifications in the EU’s negotiating position.

In responding to these concerns DG Trade stated that:

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<sup>9</sup> <http://europa.eu.int/comm/trade/issues/global/sia/faqs.htm>

<sup>10</sup> The core impact indicators used in the SIA methodology are specified in terms of the economic, social and environmental pillars of sustainable development.

- Sustainable development has to become a central objective in all trade negotiations
- SIA is an analytical and information tool that should play a key role in attaining this objective
- DG Trade is committed to SIAs that improve the EU's negotiating positions in the interests of sustainable development. SIAs are not intended to find ways of compensating for the shortcomings of negotiating positions by identifying the need for complementary measures.

Indirect evidence on the influence of the SIA studies on the EU's negotiators can be drawn from the position papers published by the EC. For each SIA the Commission aims to prepare a paper based on the SIA findings, which defines points of agreement, responds to disagreements, and considers what further action should be implemented. Prior to publication, the position paper is drafted and discussed with Member States at the trade committee – the so-called '133 Committee'<sup>11</sup>. This time-consuming process has been completed only for some of the earlier SIA studies (EC 2005a, 2005b, 2005c, 2005d). Typical responses fall into one of five main categories:

- specific new action is proposed;
- possible new action is under consideration;
- more detailed analysis is needed before decisions on action can be taken;
- sufficient action is already being taken;
- the Commission disagrees with the SIA findings.

Where the responses fall in the first group, the proposed action has tended to be non-specific, such as raising awareness of EC delegations.

Further evidence on the impact of the studies on EU policy-making may be obtained from attention received in Parliament. The Euro-Mediterranean Parliamentary Assembly Resolution on Economic and Financial Issues, Social Affairs and Education (21 November 2005) was formulated 'having regard to the Executive Summary of Phase 2 of

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<sup>11</sup> This text is taken from the DG Trade website.

the Sustainability Impact Assessment Study of the Euro-Mediterranean Free Trade Area'. In addition, a Parliamentary Question has been tabled in the European Parliament, which required the Commission to react to the findings of the EMFTA SIA.

The SIA for the EMFTA is one of the more recent studies, whose timing was designed to coincide with the preparations for the 10th Anniversary Ministerial Summit of the Euro-Mediterranean Partnership. Many of the actions agreed at the summit address specific issues which were identified in the preliminary consultation draft of the SIA report, as detailed in the final report (IARC 2006).

In order to obtain wider evidence of the impact of the SIA studies, a pilot questionnaire survey was undertaken to solicit the views of internal and external stakeholders. The limited number of responses caution against generalising the results, which are best interpreted as providing an indication of the range and variety of views that a larger and more representative sample might reveal. Responses were received from NGOs, the private sector and EC trade negotiators and officials, giving both 'outsider' perceptions and 'insider' judgements informed by experience. In the responses to specific questions no statistically significant difference was identified between the responses of insiders and outsiders. However, differences may be gleaned from the specific comments made. Respondents were asked to consider only those SIA studies with which they were familiar.

In relation to outcomes, the survey asked two questions covering the impact of the SIAs on decision making.

**Question A.** 'To what extent has SIA strengthened the integration of sustainable development into trade policy decisions?'

**Question B.** 'What is your overall impression of the extent to which SIA has influenced decision-making in each of the following areas? – influence on trade agreement; influence on development aid programmes; influence on EU domestic policy; influence on domestic policy in non-EU countries.'

For the first question, 59% of responses considered that the impact was low or very low, on a scale from 1 to 5 for very low to very high. Only one respondent gave a score of 5, for very high impact.

The responses for the second question were similar, indicating particularly low influence on trade agreements or on domestic policy in non-EU countries. They indicated somewhat greater influence on EU domestic policy and development aid programmes. For development aid, 31% of respondents reported a medium level of influence, and 6% a high level. For EU domestic policy 30% of responses ranged from medium to very high influence (10% each), but with 70% reporting low or very low influence. Over 80% of respondents thought that the influence on trade agreements or non-EU domestic policy was low or very low.

An indication of respondents' reasons for these estimates was given by their responses to the questions related to activities and outputs. Nearly 70% of respondents thought that the SIA methodology had improved with the more recent studies, and only one thought that it had deteriorated. While 37% considered that the quality of analysis of the potential economic, social and environmental impacts was poor, 16% thought that it was satisfactory, and 47% considered it to be good or very good. The responses to all the questions on the consultation process were positive overall, with 78% indicating satisfactory or better, and 50% good or very good. The discussion of mitigation and enhancement proposals and recommendations for policy-makers was the weakest element. This was considered to be poor or very poor by 52% of respondents, and satisfactory or good by 48%. None thought that it was very good.

A further indication of respondents' views on the influence of the SIA programme is given by their detailed comments. These are given in Box 4.

**Box 1. Stakeholder comments on the SIA process**

**Integrating SIA into policy decisions**

The direct impact on decisions is low but as part of a general process of awareness raising and understanding of wider impacts of trade reforms it is a positive contribution. Expectations were too high and the baseline (impact of a trade policy without SIA) too complex (Trade Official)

SIA are an instrument of awareness raising for decision makers. But as they are vague they offer arguments for protectionists as well as for more liberal negotiators. The WTO negotiations on the DDA are still in a phase where the interesting part of the SIA (flanking measures to avoid negative impact of liberalisation) has no relevance yet (Private Sector)

Sustainable development issues are either seen as mitigation issues or sidelined if they run counter to liberalisation goals. The concept of sustainable development applied by the Commission has not exercised a change in the core of EU trade politics ie trade liberalisation (Private Sector)

Gut instinct strongly suggests that the current situation is very much better than that which would have obtained if the SIA policy and programme had not been devised in the first place. The policy has fostered and facilitated comprehensive, balanced, systematic and structured attention of predicted impacts in each of the economic, social and environmental spheres (Trade Official)

The mere fact of including an independent sustainability indicator in SIA contributes to the integration of sustainable development into policy decisions, (NGO)

### **Methodology**

One major factor in this improvement is the benefits derived from the integration of a much wider and more rigorous consultation procedure within the SIA method (Trade Official)

It is evolving and being refined with experience (at least among the more experienced practitioners) (Expert)

While the quality improved somewhat, the financial resources available for the research, I heard, were diminished, which did not allow to make the SIA more comprehensive in its methodology as required based on the experience of the first years and the comments from NGOs.(NGO)

The EU Commission developed standards in cooperation with the business community and the NGOs. This makes the SIA comparable among each other and provides the

same set of minimum information. Furthermore, due to the harmonized procedures (three phase approach) it is easier for civil society to participate as procedures are predictable and input can be planned properly. (Private Sector)

### Analysis of economic, social and environmental impacts

Too general and linkages not systematic enough (Trade Official)

Environmental analysis could have considered a wider range of ecological services/assets (eg on the basis of the analysis in the UN Millennium Ecosystem Assessment) (NGO)

There have been numerous criticisms-particularly in relation to the earlier studies-of the paucity and poor quality of the analysis of social impacts relative to analysis of economic or environmental impacts (Trade Official)

The difficulties are in the inability-with this methodology, to give a holistic overview in terms of broader public benefits, rather than a set of sectoral and regional impacts (Expert)

Varies from study to study – some WTO studies have been very good, whereas some other regional studies have been poor (Expert)

Not taking into account the impact of WTO rules on the possibility to fully implementing the mitigating policies (advised in the SIA or that might be taken by a government) is a major problem (NGO)

Some were just poor quality work, others reflected the fact that the TOR assume that there is the information available to carry out impact studies to the level of detail required to develop detailed SIA recommendations (Trade Official)

### Consultation

Quite good overall – eg round tables in Brussels, but unknown at local level

Comments may be taken into account by the impact assessment consultants but I have no evidence of the Commission services taking any notice at all (Expert)

Every opportunity is provided and studies are at least redrafted to reflect comments (Expert)

While information and opportunity for consultation are good and sufficient, the main limitation of the consultation process may lay in the reduced capacity of actors to perform in depth analysis of the information and produce relevant

comments/recommendations. The consultation process has not taken into consideration the need to support capacity building of actors, in particular civil society and in particular South civil society, who have the strongest limitations in engaging in complex processes such as Trade SIAs.(NGO)

Lower marks for availability for comment as had reports often late or at short notice (Trade Official)

The above rating applies mainly to those mainly international organisations (NGOs, special interests/lobbying groups) that are active in Brussels. It is questionable if these groups necessarily always represent those parts of civil society that are likely to be most affected by trade liberalisation (either positively or negatively).(Private Sector)

Good line of communication with consultants and officials in meetings and briefings, all documents are quickly and online available, input from business side is taken into consideration in studies (Private Sector)

#### **Mitigation, enhancement and recommendations**

Discussions are very useful. However, the challenge is to ensure that the M and E measures are later on integrated eg into EU-aid programs at country or regional level, or into formulation of trade-related support (eg capacity building) (Private Sector)

The mandate to give mitigation and enhancement measures to alleviate adverse impacts of trade liberalisation was adhered to with a few good examples. However,...the recommendations were often ignored and not seen as a condition by which liberalisation could take place and be beneficial (NGO)

Too general and not specific enough to be useful (Trade Official)

Some clear indications are provided where mitigation and enhancement measures would alleviate adverse impacts of trade liberalisation. The problem is that this advice is often ignored in the trade liberalisation process. Furthermore, the mitigation and enhancement measures fail to give specific recommendations how the EU trade position should be changed (NGO)

Mitigation holds the most interesting potential in my opinion, and there should be more discussion of it (Expert)

Level of generality is too high to come up with workable proposals and most recommendations either assume or require a range of non trade interventions that have separate financial and political implications (Trade Official)

The stakeholder survey revealed that more still remains to be done to improve the technical aspects of impact assessments. The more recent studies have moved towards addressing the shortcomings, but further research will be necessary to determine how successful this has been. Meanwhile, the principal shortcomings identified by the survey relate to the relevance and specificity of the recommendations for mitigation and enhancement, and the integration of the SIA studies into trade negotiations and the development of trade policy and related policies.

Conflicts may occur between a publicly conducted SIA process that aims to be impartial, and the development of a confidential negotiating position that gives priority to EU interests. Significant tensions of this nature arose in some of the early studies, but have eased considerably with the later studies. The EC has moved away from a philosophy in which the SIA is undertaken as in independent evaluation, towards playing a stronger role itself in leading the assessment, and in defining specific issues for which better information is needed for refining the Commission's negotiating positions and other trade-related policies. To this end the Commission has established a Steering Committee for each SIA, whose members include trade negotiators for the relevant sectors, and representatives of other departments with responsibilities for environment, social issues and international development. This has strengthened the role which SIA can play in helping to co-ordinate the different interests within the Commission in the formulation of policy. Additionally, the interest generated by some of the studies within the European Parliament has contributed to the role played by Parliament in guiding the Commission.

As well as informing the negotiations, the SIA studies are intended to inform the development of parallel policy measures in both the EU and its trading partners. In general the studies have not revealed major adverse impacts in the EU, and so most of the recommendations for parallel measures relate to domestic policy in developing countries and the support that can be provided through the EU's development assistance programmes.

As identified in the survey, it is not expected that the studies will have a major influence on domestic decision-making in non-EU countries, and no evidence of significant influence has been identified. Stakeholders do not expect major influence partly because of a lack of specificity in the recommendations for mitigation and enhancement, and partly because the studies are not commissioned by partner country governments nor steered towards the specific interests of their negotiators. In general the prime aim of partner country negotiators is to secure greater access for their exports, and to minimise the concessions they have to make on greater access to imports. In doing so they aim to obtain a net economic benefit, which the studies generally show will be small. Adverse social or environmental impacts as identified in the studies are the responsibility of other government departments, which have limited influence on the negotiations.

The greatest influence on parallel policy measures is expected to occur through EU technical assistance and related action. For example the study for the forestry sector in the WTO negotiations added greater weight to international action already being taken by the EU to help strengthen forest governance, although there is no clear evidence that the policy was significantly changed by the SIA findings. Most of the SIA recommendations for technical assistance are uncontroversial, and assist primarily in identifying priorities.

The greatest influence is expected for regional trade agreements. The number of countries involved is smaller than for WTO negotiations, allowing a greater degree of specificity in the SIA findings and recommendations. Also, regional trade liberalisation may be conducted within a wider framework of regional cooperation, allowing trade issues to be considered alongside non-trade issues in the decision-making framework. Here too however, clear evidence of policy change has yet to emerge.<sup>12</sup>

To conclude, the EU's SIA programme may be regarded as an ambitious effort to strengthen the evidence base of regional and global governance, and steer it towards sustainable development goals. Success to date has been limited. While there are signs that the programme has led to a heightened awareness of the potential impact of trade

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<sup>12</sup> The SIA findings and recommendations should not be confined to the countries that are parties to the RTA. A regional agreement can have significant impacts (eg trade diversification effects) on non-member countries

negotiations on sustainable development and has influenced decision-making processes within the EU, this has yet to feed through to significant changes in trade policy.

## 5. Summary and Conclusions

The recently published EC Communication ‘Global Europe: Competing in the World’ marks a significant juncture in European trade policy. The new strategy signals the importance that the EC attaches to new regional trade agreements and the contribution that these agreements can make to Europe’s competitiveness and economic growth objectives. At the same time there is a commitment to continue to give attention to the potential impact of regional trade negotiations on sustainable development and to monitor the effects of implementing new regional trade agreements.

The SIA programme undertaken by the Commission since 1999 provides a number of lessons for ensuring that the commitments to assess potential sustainable development impacts and to monitor the results of new regional agreements are realised. The Mercosur and EMFTA SIA studies highlighted areas where the potential economic efficiency gains may be at the expense of environmental sustainability or social needs, and pointed to the need for appropriate flanking measures to mitigate the negative effects.

The European Commission’s approach to RTA impact assessment presents particular challenges for integration into decision-making. In assessing impacts in other countries as well as in the EU, the approach aims to be objective and impartial. However, the EU’s trade policy is by definition partial, favouring the EU’s interests in the preparation of a negotiating position, and working towards an agreement with other countries through a process of give and take. If an SIA is indeed impartial, there will inevitably be divergence between its findings and Europe’s negotiating position. In embarking on the SIA programme the European Commission has accepted this, as part of its efforts to strengthen regional and global governance.

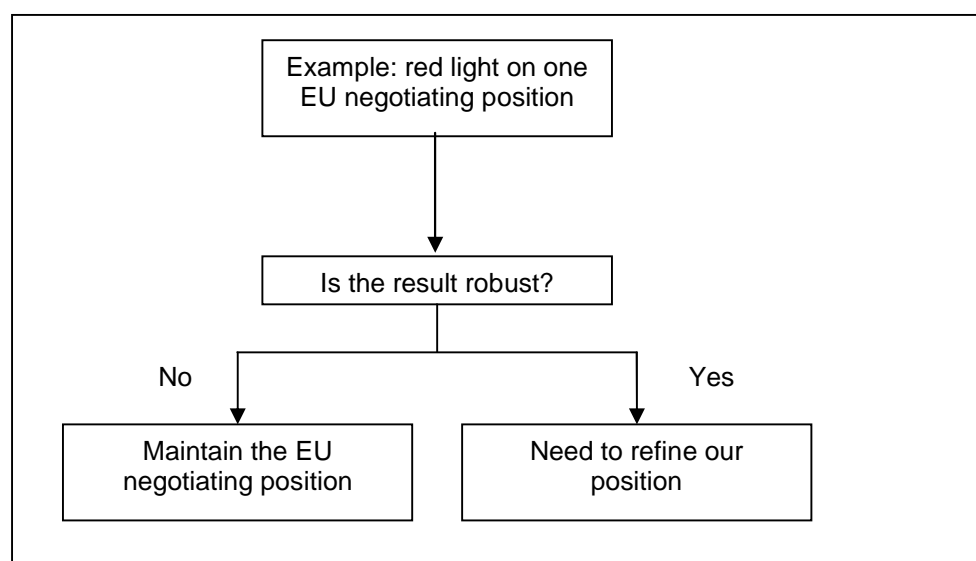
This tension between the SIA programme and the negotiating process is reflected in a clear distinction between the impact assessments conducted under the SIA programme, and those conducted under EU procedures for the Impact Assessment (IA) of policy proposals (European Commission 2005). For all policy decisions made at the European

Union level, the EC has since 2003 been implementing an impact assessment process for all major initiatives which are presented in the Annual Policy Strategy or in the Work Programme of the Commission (European Commission 2002b). The majority of these IAs involve public consultation and provide full public access to assessment reports, but not for trade policy, where the assessments are conducted internally and access to the reports is restricted (European Commission 2006c).<sup>13</sup> If the development of a negotiating position were done publicly, it would reveal the hand of the negotiators and weaken their position. Therefore, although the publicly conducted SIA process is intended to inform negotiating positions, it does not define them. It must avoid ‘calling into question the confidentiality principle of our negotiation strategy’, and use scenarios that are ‘established within a sufficiently broad universe as not to reveal our positions to our partners’ (European Commission 2002a). The EC does not expect its negotiating positions to be completely different from the results of an SIA, but it accepts that there will be inconsistencies. It has established a mechanism for resolving them, shown in Figure 1.

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<sup>13</sup> For an evaluation of the EC’s IA process, see Lee and Kirkpatrick, 2006; Franz and Kirkpatrick, 2007.

Figure 1. Integration of SIA results into negotiations



Source: EC (2002a)

If the SIA indicates a ‘red light’, the Commission will modify its position if it considers the result to be robust, but otherwise it may not. In view of the high levels of uncertainty in many of the SIA findings, there is considerable scope for rejecting them on these grounds. The Commission may publish its response on its website, although its decisions may entail a degree of confidentiality, to avoid challenging the negotiating position.

These potential conflicts between an SIA process that is conducted publicly and is intended to be impartial, and a negotiating process that is of its nature confidential and gives priority to EU interests, created significant tensions in some of the early studies. These have eased considerably with the later studies, as the EC has moved towards playing a stronger role itself in leading the assessment, and in defining specific issues for which better information is needed for refining the Commission’s negotiating positions and other trade-related policies. To this end the Commission has established a Steering Committee for each SIA, whose members include trade negotiators for the relevant sectors, and representatives of other departments with responsibilities for environment, social issues and international development. This has strengthened the role which SIA can play in helping to co-ordinate the different interests within the Commission in the formulation of policy. In parallel, some of the studies have generated considerable interest within the European Parliament, particularly among those Members with

interests in environment and overseas development (European Commission 2006b). Partly through the relationships between Members of the European Parliament and NGOs involved in the consultation programme, the SIAs have contributed to the role played by Parliament in guiding the Commission.

In addition to informing the negotiations, the SIA studies are intended to inform the development of parallel policy measures in both the EU and its trading partners. In general the studies have not revealed major adverse impacts in the EU, and so most of the recommendations for parallel measures relate to domestic policy in the partner developing countries and the support that can be provided through the EU's development assistance programmes. Although it is possible that some non-EU countries might take direct account of the SIA findings in domestic decision-making, the greatest influence is expected to occur through EU technical assistance. Most of the SIA recommendations in this area are uncontroversial, and assist primarily in identifying priorities.

One of the biggest difficulties of integrating the SIA process into decision-making is that while the studies assess impacts on sustainable development, the agreements they assess are not sustainable development agreements, but trade agreements, with no other authority to act as a competent authority. Several of the SIA studies have concluded that the global environmental impacts of the agreements they assess are negative, particularly for climate change and biodiversity loss. However, neither the European Commission nor any of the trade ministries negotiating regional agreements is responsible for these issues. In order to counter the adverse global impacts of trade liberalisation and maximise the beneficial ones, and hence contribute to achieving the Millennium Development Goals, trade agreements need to be accompanied by stronger global governance in non-trade areas.

At the regional level some progress might be possible in this direction. In the Mediterranean region for example, the EU and its partner countries have adopted the overarching Barcelona Process. This pursues a wide range of development objectives, among which the creation of a free trade area is just one component. In parallel they have developed a Mediterranean Strategy for Sustainable Development (UNEP/MAP 2005). Further refinement of the sustainable development strategy, and its adoption as

the defining strategy of the Barcelona process, 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. In the meantime, SIA can do no more than identify the impacts which result from decision-making processes that were not designed with sustainable development in mind.

The experience with the EU's SIA programme points to the challenges of integrating regional trade negotiations with broader developmental goals and cautions against unrealistic expectations with respect to the Commission's stated intentions to allow for the sustainable development impacts of future regional trade negotiations. But the strengthening of the transparency and accountability dimensions of EC decision making could encourage a gradual process of improvement in the design and implementation of regional trade agreements that at least comply with the minimum requirement of 'do no significant harm'.

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