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Sustainability Impact Assessment of trade agreements: from public dialogue to international governance

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Abstract

In common with the governments of the United States and Canada the European Commission subjects its trade policy to a publicly conducted impact assessment process. The EC approach differs from the others in assessing economic and social impacts as well as environmental ones, in other countries as well as domestically. In principle this can contribute to strengthening international governance. In practice difficulties are encountered in integrating the studies into the decision-making process. The article examines the experience that has been accumulated in the EC programme, with particular reference to studies at the global level for World Trade Organisation negotiations and regionally for the Euro-Mediterranean Free Trade Area. These two examples offer pointers for how the impact assessment process might be adapted or extended to make a stronger contribution to international governance at both regional and global level.

1. Introduction

Policies for the *ex ante* impact assessment of proposed trade agreements have been introduced in Canada, the United States and the European Union, following principles for transparency and public involvement established in national legislation for environmental impact assessment (George and Goldsmith 2006). These initiatives draw on the experience accumulated for *ex post* assessments of the North American Free Trade Agreement (NAFTA) undertaken through the Council for Environmental Cooperation (CEC). For *ex ante* assessments of proposed agreements the EU's approach is more complex than its North American equivalents (Kirkpatrick and George 2006). In the USA and Canada Strategic Environmental Assessments (SEA) of trade policy aim to identify potential environmental impacts in the home country, and to a lesser extent in other countries if domestic interests may be affected. This provides trade negotiators with additional information that can be taken into account in developing the country's negotiating position, alongside that available for economic and social issues. The EU's Sustainability Impact Assessments (SIA) extend the scope of the assessment to the EU's trading partners as well as Europe itself, and to economic and social impacts as well as environmental ones. This adds extra complexity to the assessment, and presents extra challenges for its integration into policy formulation. The assessment of impacts in other countries may conflict with a policy process that promotes the European interest in negotiation with those other countries, while the assessment of economic and social impacts may challenge the validity of separate analyses that are carried out as an integral part of preparing Europe's negotiating positions.

Europe's SIA programme was introduced at the initiative of Trade Commissioner Pascal Lamy (later to become Director General of the WTO) during the preparations for the 1999 World Trade Organisation (WTO) inter-Ministerial conference in Seattle. The decision to launch the programme was described by Commissioner Lamy as a response to concerns expressed by European citizens about 'the environmental and social impact of EU policies, globally as well as in Europe' (Lamy 2003). While accepting that other countries might see the SIA studies as an intrusion, he pointed out that the European Commission was simply trying to ensure that Europe's negotiators were sufficiently well-informed to take account of the collective preferences of European citizens, which 'place restraints on our negotiating positions'. The SIA studies were intended to contribute to 'greater dialogue between policy-makers and civil society as a whole, from NGOs to private-interest lobbies'. The process

informs the public dialogue which policy-makers take into account when evaluating European collective preferences, alongside parallel economic assessments and direct consultation with key interest groups.

In contributing to the public dialogue the SIA studies aim to ensure that the public is well informed about the likely impacts of EU trade policy. By providing an objective analysis of the significance of potential impacts the studies aim to alleviate unwarranted concerns, while highlighting those of greater significance. Through the associated dialogue policy-makers judge whether European collective preferences are sufficiently influenced by the assessed impacts to necessitate the 'restraints on our negotiating positions' envisaged by Commissioner Lamy.

Civil society representatives have expressed a degree of frustration when an impact that is assessed to be significantly adverse fails to stimulate a policy response (WWF 2002, SUSTRA 2003, RSPB and Birdlife International 2003, WIDE 2004, Solidar 2005, CRBM, FOEE, Greenpeace and WIDE 2006). This is primarily a consequence of the role of SIA within the policy formulation process. The studies are not intended to influence policy-making directly, but indirectly through their contribution to the public dialogue.

All of the SIA reports are available on the EC website and those of the organisations conducting the studies³. Their findings typically show that some public concerns are unwarranted but reinforce others, including potentially adverse environmental, social and economic impacts in Europe's trading partners and globally. However, it has to be accepted that European trade negotiators do not negotiate on behalf of other countries but on behalf of Europe. Responsibility for action to avoid adverse impacts in other countries rests with the governments of those countries themselves, either through policy measures adopted in parallel with a trade agreement, or through declining to enter into the agreement. Few European citizens express concerns about the impact of EU trade policy on the USA. More serious concerns arise for countries that are less well placed to promote their own economic interests, to protect the poorer sections of their societies or to manage their natural environment effectively. A further concern arises when common global or regional interests are not fully recognised within the economic bargaining processes of trade negotiations.

This article examines the question of whether an SIA process that assesses impacts in all trading partners is capable of going beyond the promotion of European collective preferences, to promote the interests of all affected citizens and contribute to stronger global or regional governance. It makes use of the experience that has been accumulated during the SIA programme, with particular reference to the studies that have been undertaken for the multilateral WTO negotiations and for the SIA of the Euro-Mediterranean Free Trade Area (EMFTA). Similarities and differences at the global and regional level are identified, which offer pointers for how future SIA studies may be more fully integrated into the formulation of policy for sustainable global and regional development.

³ See Box 1 for a list of the studies. The reports can be accessed via the DG Trade website and the SIA website maintained by Manchester University Impact Assessment Research Centre (www.europa.eu.int/comm/trade, www.sia-trade.org).

2. Trade liberalisation and sustainable development

If the conventional economic argument in favour of free trade were the only consideration there would be no WTO and no trade negotiations (Krugman 1997). Every country would gain economically from removing its import barriers and export subsidies unilaterally, whether or not other countries did the same. Greater economic efficiency would enable improved social conditions and higher levels of environmental protection. Any country that failed to open its borders would lose, prompting all countries to adopt free trade voluntarily.

Governments place restraints on imports and subsidise the production of tradeable products for a wide range of economic, social and environmental reasons. A country may wish to protect its agriculture and forgo the economic benefit of cheaper imports, in order to preserve the characteristics of rural areas and maintain food security in time of war. It may wish to promote the development of high added-value industries and protect them against imports until they are sufficiently well established to compete internationally. Removing such restrictions negates the benefits of introducing them, and is only done when an equivalent or greater benefit can be negotiated from other countries in return. The negotiating process can become highly political. Coalitions are formed, efforts to break them are made, strategies are revised and negotiating positions are changed, sometimes without opposing groups even noticing (Odell 2006).

The conventional economic case for trade liberalisation is based on the efficiency gains available if each country were to concentrate on producing those goods or services in which it has a comparative advantage. The comparative advantages of high income countries tend to be in high added-value products with high technology content and high skill levels, while those of low income countries are primarily in low wage products and commodities. High income countries benefit by reinforcing existing comparative advantages, while countering any erosion of them by further upgrading of technologies and skills. Developing countries develop by changing comparative advantages, through increasing their competitiveness in activities that earn high wages (Wade 2003, Rodrik 2004). Trade liberalisation reinforces existing advantages. However, it may help to change them in the longer term by stimulating the introduction of new technologies and skills. Trade policy in developing countries must therefore draw a balance. Greater participation in international trade offers access to the technological and human capacities needed for development, but domestic industries may need a degree of protection if they are to survive for long enough to acquire those capacities.

The SIA studies show that the economic impacts of trade liberalisation may be positive or negative, differing between countries and varying between the short term and the long term, depending on how the balances are drawn for any particular trade agreement. Most of the social and environmental effects occur as a result of the economic ones. These too vary between countries and between short term and long term effects, with some of the impacts positive and some negative. The net overall effect on sustainable development depends on how these impacts are weighed against each other, taking into account the different values of the different groups of people that are affected in different ways in different countries and the consequences for future generations. The SIA process contributes to the information on which such value judgements may be based, both in the development of a negotiating position and in the international negotiations.

Countries do not enter into trade negotiations in order to achieve economic efficiency gains. These are readily available from unilateral action, and influence the negotiations only in so

far as each country attempts to persuade others that they would benefit from agreeing to its own requests. Those requests aim primarily at increasing export opportunities for the goods and services a country produces, with a focus on those that are of strategic importance for key interest groups or for the country's future development strategy. In return a country will be prepared to reduce import restrictions for goods or services whose importance has declined since the restrictions were introduced.

A country's initial negotiating position will normally aim for greater access to other countries' markets than is likely to be achieved in practice, and will offer less liberalisation of its own markets than it may be prepared to accept. The negotiating mandate defines how far negotiators can go in the subsequent process of give and take. The analysis on which the mandate is based must be kept confidential, or the country's negotiating position would be weakened (European Commission 2002a). The mandate cannot therefore be based on a publicly conducted SIA. It will instead be based on separate analyses and consultative processes whose findings must remain confidential. In Europe these have been formalised under the procedures introduced in 2003 for Impact Assessment (IA) of all major policy proposals (European Commission 2002, 2005).

The majority of impact assessments carried out under Europe's IA procedures are in the public domain. They inform policy-making directly while also informing the associated public dialogue. For trade agreements, which entail negotiations with other countries, the IA informs policy directly but its analysis and findings are not publicly available (European Commission 2006). The separate SIA studies are carried out subsequently as part of the public dialogue. They aim to provide an objective assessment of effects in all three dimensions of sustainable development, in other countries as well as in Europe, in order to provide all sections of civil society with a better understanding of the issues and the potential impacts.

3. Coverage and content of the SIA studies

Some 20 SIA studies have been undertaken to date in the EU programme (Box 1). All of these have been conducted as independent assessments by a variety of external organisations. They include a series of studies for the WTO multilateral trade negotiations mandated by the WTO Ministerial Meeting in Doha in 2001, and SIAs for the EU's regional and bilateral trade negotiations. Further studies are currently being undertaken or are planned for other proposed trade agreements at the bilateral or regional level.

Box 1. European Union SIAs

Pre-Seattle SIAs

Initial development of SIA methodology

- Overview SIA

WTO Doha Development Agenda

Further development of SIA methodology

- Preliminary Overview SIA
- Sector studies
 - Agriculture – major food crops
 - Non-Agricultural Market Access - textiles and clothing, non-ferrous metals, pharmaceuticals
 - Competition policy

- Environmental services
 - Distribution services
 - Forests
 - Agriculture
 - Fisheries
 - Final Overview SIA
- Regional and Bilateral SIAs
- EU-GCC (Gulf Cooperation Council)
 - EU-ACP (Africa, Caribbean and Pacific)
 - overview SIA
 - sector/sub-region SIAs
 - EU-Chile
 - EU-Mercosur
 - preliminary overview SIA
 - sector studies
 - update of overview SIA
 - Euro-Mediterranean Free Trade Area
 - overview SIA
 - sector/sub-region studies
 - EU-Ukraine
 - global analysis
 - sector studies

Source: information from <http://www.europa.eu.int/comm/trade>

Through the regional and bilateral agreements listed in Box 1 the EU and specific countries grant each other lower restrictions on market access than have been agreed multilaterally through the WTO, and make additional commitments on trade-related issues that go beyond WTO requirements. These agreements have to comply with Article XXIV of the General Agreement on Tariffs and Trade (GATT), which defines the conditions under which regional trade agreements (RTA) may be established (WTO 2007). The WTO defines a region as two or more countries, with no distinction between bilateral agreements and those between larger groups. The most-favoured nation (MFN) principle of the WTO requires that a product made in one member country be treated no less favourably than a similar one produced in another member. Article XXIV permits exceptions to this rule through the formation of a customs union or a free trade area, provided that the preferential treatment applies to “substantially all trade” between the parties to the RTA, and that any interim arrangements for its establishment are completed within “a reasonable length of time”. All of the EU’s regional and bilateral agreements are deemed to comply with these requirements.

Import duties or taxes (tariffs) are the most straightforward form of trade restriction and apply to both agricultural and non-agricultural goods. Services are not easily subjected to import duties, and other restrictions are applied. All forms of trade may also be restricted by other non-tariff measures, subject to WTO rules or to more stringent controls applied through a regional or bilateral agreement. Trade negotiations leading to a new or revised agreement generally cover both tariff reductions and revisions to these rules.

The principal measures for negotiation in the WTO Doha agenda are listed in Box 2. A regional or bilateral trade agreement may include the equivalents of any or all of these measures.

Box 2. The trade policy agenda

Market access for goods and services

- Agricultural tariffs
- Non-agricultural tariffs
- Trade in services

Rules-based measures

- Trade Facilitation
- Government Procurement*
- Trade and Investment*
- Competition Policy*
- Trade-Related Aspects of Intellectual Property Rights (TRIPS)
- Technical Barriers to Trade (TBT)
- Sanitary and Phytosanitary (SPS) measures
- Rules of Origin
- Subsidies, Anti-Dumping and Countervailing Measures
- Trade and Environment
- Dispute Settlement Mechanism

*removed from the WTO Doha agenda at the Cancun Ministerial meeting in 2003, but may be retained in regional or bilateral negotiations

Source: derived from Kirkpatrick, George and Scricciu (2006)

Revisions to any of the measures listed in Box 2 will have an economic impact, differing between countries. This includes the rules-based measures as well as the direct barriers to trade in goods and services. The economic impact may lead to significant social or environmental impacts. Some measures, such as those on trade and environment or changes to the rules on TRIPS, TBT or SPS, may also have direct environmental effects.

A comprehensive SIA study needs to assess the potential impacts of significant changes in any of these measures. The SIA studies for the WTO Doha agenda (Kirkpatrick, George and Scricciu 2006) included an overview assessment of all the measures in Box 2, and more detailed examination of those for which the impacts were assessed to be significant. The SIAs for regional and bilateral agreements have covered the market access provisions and any proposed rules-based measures of significant concern.

Two main types of economic effect can arise from any of these components of a trade agreement:

- the balance of trade between countries is altered by a change in prices or other incentives, causing domestic production to increase for some goods and services and decrease for others, with consequent changes in overall economic efficiency (*static equilibrium effects*);
- a country's rate of economic growth may be accelerated or decelerated by changes in opportunities and incentives for structural change and economic development (*dynamic development effects*).

Both types of economic effect result in economic, social and environmental impacts. Two further types of impact also occur:

- the change from one trade equilibrium to another takes several years, with short to medium term economic, social and environmental impacts during the period of adjustment (*adjustment effects*);
- the changes in economic structure may accelerate or decelerate existing processes of social transformation or environmental change (*social and environmental process effects*).

The SIA studies have assessed these various types of impact through a combination of theoretical analysis and empirical evidence from the literature. The assessment generally begins by evaluating the causal relationships for all aspects of the trade policy agenda. For the static equilibrium effects, particularly those associated with tariff changes, the causal relationships are fairly well understood and have been incorporated into economic models. These are particularly useful for providing quantitative estimates for some of the static equilibrium economic effects, and hence of the associated adjustment effects and their economic, social and environmental impacts. Some of the SIA projects have used the results of economic modelling studies available in the literature, while others have included a modelling analysis within the project. For the other types of impact the assessment is generally more qualitative, supported by quantitative information where available.

The assessment methodology and techniques have been broadly similar for all the studies, both at the multilateral level of the WTO negotiations and for Europe's regional and bilateral trade agreements. In broad terms the findings also tend to be similar, but with different implications for policy responses at the multilateral and regional level. Two of the SIA studies are examined in the next two sections, one at the multilateral level of the WTO negotiations, and the other at the regional level for the Euro-Mediterranean Free Trade Area (EMFTA).

4. SIA studies for the Doha round of WTO negotiations

During the preparations for the 1999 WTO conference in Seattle the European Commission initiated a preliminary assessment of the impacts on sustainable development of the proposed negotiations. The methodology was developed in early 1999 (Kirkpatrick, Lee and Morrissey 1999), building on earlier North American experience of assessing the environmental impacts of trade policy (Government of Canada 1992, USTR 1993, OECD 1994, CEC 1999). An overview assessment of the Seattle agenda was undertaken prior to the WTO meeting (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.

After the failure of the Seattle conference negotiations were subsequently mandated by the WTO Ministerial Meeting in Doha held in 2001. 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.

As summarised in Box 1, the programme of studies for the Doha negotiations began with a preliminary overview SIA, proceeded through a series of more detailed sectoral studies, and concluded with a final overview SIA. The preliminary overview study gave an initial intimation of the potential significance of likely impacts, which contributed to consultation on the choice of sectors for more detailed assessment. The final overview study drew together

the findings of the other assessments and presented overall conclusions and recommendations.

Many economic modelling studies of multilateral trade liberalisation had been undertaken before the Doha agenda was launched, using a wide range of approaches, assumptions and approximations. Many other modelling studies became available by the time of the final overview SIA. A comparative analysis of these studies was carried out rather than undertaking an additional modelling exercise specifically for the SIA. The comparative analysis provided quantitative information for the static equilibrium economic effects, covering both the welfare effect of changes in economic efficiency and the magnitude of the production changes occurring during the period of adjustment. These production changes are the principal source of environmental impacts and of short to medium term social impacts.

The key impacts identified in the assessment are summarised in Box 3.

Box 3. WTO SIA programme - key impacts

- Most countries experience beneficial impacts for some sections of society, but adverse short term impacts on others
- The transition period may be associated with increased unemployment or underemployment as labour and capital move from less to more efficient uses.
- The adjustment costs can be severe in developing countries where social protection is weak or absent.
- The global impact on social welfare is modest, with a small reduction in absolute poverty levels in developing countries as a group
- The impact on poverty reduction is expected to be favourable in some large developing countries, such as India and China
- In some of the poorest countries, in sub Saharan Africa for example, poverty may worsen as they stand to lose economically from trade liberalisation and face severe supply side constraints.
- The adverse effects will be particularly severe in countries with high initial levels of protection and little or no comparative advantage in sectors where other countries' markets become more open.
- Most of the adverse effects are likely to be short to medium term, and may be highly significant if liberalisation is rapid or not accompanied by effective social policies.
- These impacts may continue into the longer term in the absence of appropriate policies to support the creation of new employment opportunities.
- Countries with high initial protection may also experience a significant loss of tariff revenues, with possible negative indirect social impacts if expenditure on health, education and social support programmes is reduced.
- Women tend to be among the most vulnerable to adverse impacts, although opportunities also arise for higher skilled jobs and improved working conditions.
- Global environmental impacts are expected to be negative as the volume of international trade increases.
- The impacts on climate change and global biodiversity are adverse overall, arising primarily through increased transport and pressures for increased agricultural production in biologically sensitive areas.
- Local effects in either direction occur for water, air and soil quality, water quantity, soil erosion and biodiversity. Adverse effects are particularly significant in areas of high existing stress.
- The adverse environmental effects can in principle be countered by technology or regulatory measures. However, in many developing countries, environmental regulation tends to be insufficiently strong to counter adverse effects. Similar limitations apply to international agreements on the containment of global environmental impacts.

Source: Kirkpatrick, George and Scriciu (2006)

The sustainability impacts listed in Box 3 tend to confirm the concerns that have been expressed by civil society groups and by developing country governments during the

preparations for the Seattle conference and throughout the Doha negotiations. Since the negotiations were initiated at the end of 2001 they have achieved little progress, and reached an impasse at the Hong Kong Ministerial meeting at the end of 2006. Efforts to revive the process have entailed reducing the extent of trade liberalisation under negotiation to be considerably less ambitious than originally proposed. This outcome is consistent with the study's findings, which indicate that in the absence of effective mitigation and enhancement measures the original proposals offer only small gains with potentially large adverse effects. The principal findings are summarised in Box 4.

Box 4. WTO SIA programme - principal findings

- The global economic impact from static equilibrium effects is likely to be modest, and smaller than had been predicted in earlier years
- Potential aggregate economic welfare gains are not necessarily shared by all countries or all socio-economic groups within these countries
- As a whole, developing countries are expected to experience an economic welfare gain from the Doha trade liberalisation measures. Much of the gain is in large and newly industrialising countries.
- Some countries, particularly in the least developed (LDC) group, are likely to experience an economic welfare loss, at least in the short term.
- The social and environmental impacts are similarly differentiated.
- Global environmental impacts are expected to be negative as the volume of international trade increases.
- The potential economic benefits are likely to increase in the longer term, largely as a result of market adjustments to new conditions, productivity improvements and increased investment induced by greater trade openness.
- The least developed countries, particularly in Sub-Saharan Africa, are the least able to respond to market opportunities and the least likely to experience longer term economic gains
- Areas for support include strengthening domestic capacity in environmental and economic regulation, and adjustment assistance to avoid adverse impacts on social groups that lose from trade-induced changes
- The various aid for trade initiatives that have been proposed need to be integrated in a coherent programme of support which uses trade opportunities as an engine for growth.
- Similar action at the global level is needed to counter adverse impacts on climate change and biodiversity.

Source: Kirkpatrick, George and Scricciu (2006)

The first of the findings listed in Box 4 contrasts with conventional economic expectations of trade liberalisation, resulting from recent developments in economic modelling techniques (Piermartini and Teh 2005, Scricciu 2007). Before the advent of computable general equilibrium (CGE) models the beneficial effect of trade liberalisation on static equilibrium economic efficiency and welfare was well understood, but little quantitative information was available. Early models gave relatively large numbers for multilateral liberalisation, although even these were smaller than expected in comparison with the welfare gains occurring at normal rates of economic growth (Weisbrot, Rosnick and Baker 2004). The magnitude of the predicted gains has subsequently fallen, primarily because recent modelling studies use assumptions and data that are more realistic than previous ones, and partly because the ambitions for the Doha round have been scaled down.

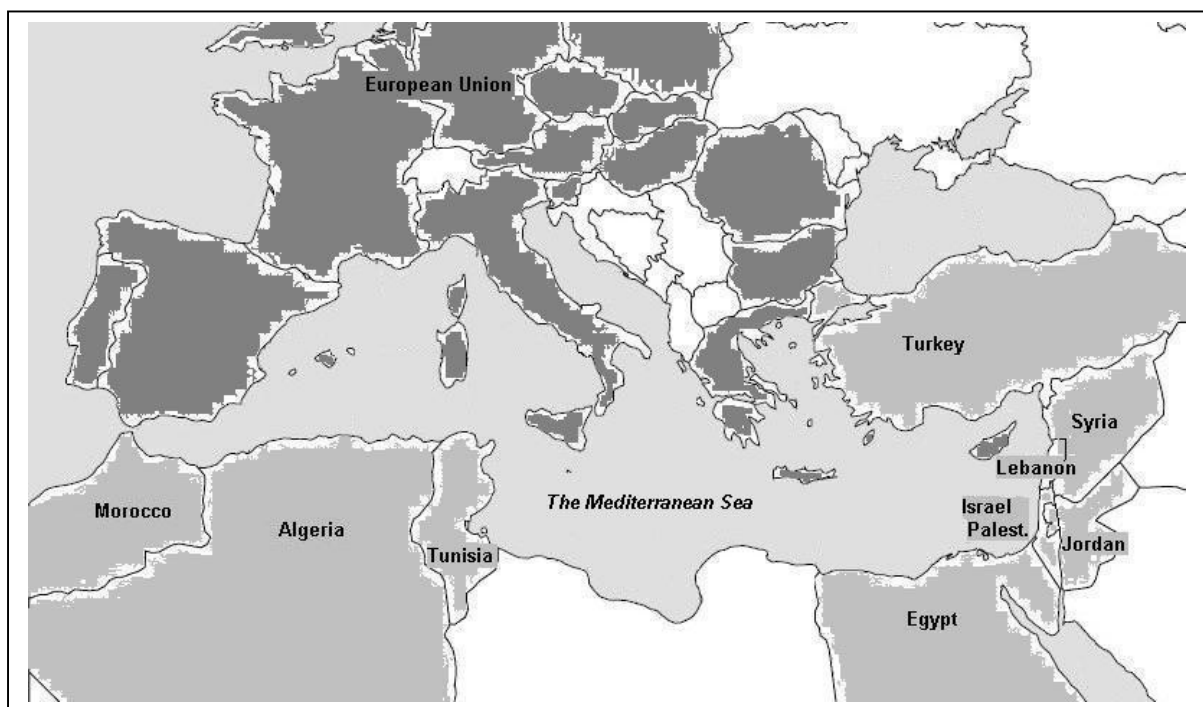
The other principal findings indicate that, even when allowing for the potentially larger economic benefits that may result from dynamic development effects, significant intervention is needed through parallel policies in order to deliver those benefits to the countries and social groups in greatest need, and to avoid significant adverse social and environmental impacts occurring as economies adjust to the changes in production levels induced by the

reduction of trade barriers. The final overview SIA presented a set of recommendations for the mitigation and enhancement measures that would be needed.

5. The SIA of the Euro-Mediterranean Free Trade Area

The creation of a Euro-Mediterranean Free Trade Area (EMFTA) is a key component of the Euro-Mediterranean Partnership (EMP) between the European Union and ten partner countries in the southern and eastern Mediterranean (Figure 1). The partnership covers political and safety partnership, economic and financial partnership (including the EMFTA), and social, cultural and humanitarian partnership. Sustainable development has been adopted as one of the EMP's guiding objectives.

Figure 1. The Euro-Mediterranean Free Trade Area



As with the other studies at regional or bilateral level, the SIA differed from those conducted for the WTO Doha agenda in needing to cover far fewer countries in addition to Europe (10 instead of 150). As well as allowing a sharper focus in the assessment of impacts this also enabled closer consultation with civil society groups throughout the region.

The Mediterranean has a long trading history that has given it a strong regional identity. It has economic, cultural and political ties that predate the origins of European civilisation in the cities on its northern shore, trading with, warring with and making peace with the older civilisations to the east and their own trading outposts on the southern and western shores. Many active networks of civil society organisations have been established covering economic, social and environmental issues. Several of these bring together all three parts of the region (North Africa, the Eastern Mediterranean and Southern Europe). Active coordination mechanisms have also been established by Mediterranean parliamentary groups, including members of the European Parliament and of national parliaments in the EU and partner countries.

The consortium formed to carry out the SIA⁴ included partner organisations in both North Africa and the Eastern Mediterranean. The Eastern Mediterranean partner based in Beirut (the Economic and Social Commission for West Asia) made use of its extensive experience of working with regional groups in developing and managing the consultation programme for the consortium as a whole.

The SIA-EMFTA programme (IARC 2007) consisted of:the following elements, each with a report published for public consultation before proceeding to the next stage:

- methodology proposals;
- baseline study;
- development of scenarios;
- regional overview SIA;
- mitigation and enhancement for key issues and sectors;
- sub-regional case studies;
- proposals for a regional monitoring mechanism;
- final SIA report.

The study assessed four components of a trade liberalisation scenario for the region. The first three covered removing trade barriers between the EU and partner countries for industrial products, agriculture and services, and the fourth examined their removal between MPCs (south-south trade liberalisation).

Many economic modelling studies of trade liberalisation in the Mediterranean region were available in the literature, and no additional modelling was needed specifically for the SIA. A comparative analysis of these studies provided quantitative information on the static equilibrium effects similar to that obtained for the WTO studies. Assessment of the longer term dynamic effects was based primarily on qualitative analysis.

The key impacts identified by the study are summarised in Box 5.

Box 5. Key potential impacts of the EMFTA

Impacts in the European Union

- A small net gain in economic welfare for industrial products. For agriculture, services and south-south liberalisation the additional impact on welfare for the EU is close to zero.
- Potentially larger economic gains in the longer term for services, and to some extent for industrial products. These are dependent on individual investment decisions and other aspects of economic and development policy in both the EU and MPCs.
- Potentially adverse social effects arising from agricultural liberalisation, restricted to local areas of EU Mediterranean countries (Spain, Greece, Italy, Portugal and southern France, and probably also Cyprus and Malta).
- In some areas the affected workers will include temporary migrants from MPCs, with a knock-on effect on social issues in MPCs.
- The social impacts will be associated with local environmental impacts, which are expected to be beneficial for water consumption and biodiversity, and potentially adverse for amenity value.

Impacts in Mediterranean Partner Countries

⁴ The SIA-EMFTA consortium comprised IARC (University of Manchester, lead partner), ESCWA (Beirut), CITET (Tunis) , ODI (London) , Bocconi University (Milan), Deloitte-Touche (Copenhagen), CIHEAM (Montpellier)

- A small beneficial impact on economic welfare in most countries, although a short term negative effect is possible in some countries.
- Greater increases in welfare may occur in the long term, but these are strongly dependent on domestic reforms and investment decisions. 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.
- Some beneficial social and environmental impacts occur in both the short term and the long term, accompanied by others that may be significantly adverse unless effective mitigating action is taken. The potentially adverse 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 in some countries, with consequent social impacts through reduced expenditure on health, education and social support programmes.
 - Higher environmental and social stress in cities, resulting from declining rural employment and accelerated rural-urban migration.
 - 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.
 - Significant adverse local impacts on water resources, soil fertility and biodiversity in areas of high existing stress.
 - 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 occur primarily in the short or medium term, which 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.

Global environmental impacts

- An overall adverse impact on climate change, arising primarily through increased transport and greenhouse gas emissions
- An overall adverse impact on global biodiversity, through pressures for increased agricultural production in biologically sensitive areas in MPCs.
- Both of these scale effects can in principle be countered by technology or regulatory effects. In itself, the EMFTA does not include measures which will strengthen these positive effects sufficiently to counter the adverse ones.
- The study indicates an overall economic gain for the EU and MPCs combined, part of which could be directed towards parallel actions to mitigate the expected impacts.

Source: IARC (2007)

Many of the potential impacts listed in Box 5 were published as preliminary findings during preparations for the Ministerial Conference of the Euro-Mediterranean Partnership in 2005. Several civil society organisations and parliamentary groups referred to these preliminary SIA findings in their pre-conference representations to the EC and MPC governments⁵. No evidence has been identified to indicate whether or not these representations or the SIA itself influenced the outcomes of the conference directly, but the action plan which it agreed reflected several of the preliminary SIA recommendations (IARC 2006).

The overall conclusions presented in the final report of the study are summarised in Box 6.

⁵ 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 the Sustainability Impact Assessment Study of the Euro-Mediterranean Free Trade Area'.

Box 6. Overall conclusions of the SIA-EMFTA

- In parallel with other strategic measures at the national and regional level the EMFTA is capable of making a major contribution to achieving the objectives of the Euro-Mediterranean Partnership and hence to the sustainable development of the region.
- Implementation of the EMFTA on its own will make only a small contribution to the economic objectives of the EMP, and needs to be accompanied by appropriate parallel measures if significant adverse social and environmental impacts are to be avoided at the local, regional and global level.
- The parallel measures that are necessary to enhance the beneficial effects of the EMFTA and to avoid significant adverse impacts include actions both at the regional level and nationally in each of the partner countries.
- In order for the EMFTA to make its full potential contribution to the sustainable development of the region, the Euro-Mediterranean Partnership itself needs to be re-invigorated and re-directed towards clearly defined economic, social and environmental goals for each of the partner countries and for the region as a whole.
- Any such re-invigoration of the Euro-Mediterranean Partnership should be based on a strategic review of its objectives and of the interactions between the EMFTA and the other components of the Partnership in contributing to those objectives.

Source: IARC (2007)

The conclusions summarised in Box 6 suggest a lack of integration between trade policy and other regional initiatives, which limits the potential gains available from the Euro-Mediterranean Partnership and risks significant adverse social and environmental impacts occurring from its trade liberalisation component.

The Euro-Mediterranean Partnership has the goal of fully implementing the EMFTA by 2010. For liberalisation of trade in industrial products, bilateral agreements between the EU and most of the partner countries were concluded prior to the SIA study, along with the development of trade agreements between MPCs. For this component of the liberalisation scenario the prime aim of the study was to identify mitigation and enhancement measures that could be applied in parallel with implementation of the agreements. Negotiations for agriculture and services were launched subsequently and are still in progress.

6. Impact assessment and the formulation of trade policy

The EC has undertaken to publish positioning papers giving its response to each of the SIA studies after full inter-departmental discussion of the recommendations. Papers have been published to date for the SIA of the EU-GCC (Gulf Cooperation Council) negotiations and for several of the sectoral studies for the WTO Doha agenda⁶. Responses are not yet available for the final overview SIA of the WTO negotiations or for the SIA-EMFTA.

Typical responses for the WTO sectoral studies fall into one of five main categories:

- 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.

⁶ The EC's positioning papers are available on http://ec.europa.eu/trade/issues/global/sia/studies_wto.htm

Proposed actions in the first group tend to be non-specific, such as raising the awareness of EC delegations. This suggests that the SIA studies have yet to have a major direct influence on the EC's negotiating positions.

The EC has stated in a recent Communication that it aims to 'build a more comprehensive, integrated and forward-looking external trade policy that makes a stronger contribution to Europe's competitiveness' (European Commission 2006a). The communication states that those aspects of the WTO Doha agenda which were rejected by developing countries at the Cancun conference in 2003 (investment, public procurement, competition policy and more stringent rules on intellectual property rights) will be pursued through bilateral and regional trade agreements. The EC will 'continue to factor other issues and the wider role of trade policy in EU external relations' into these agreements, 'but in order for trade policy to help create jobs and drive growth, economic factors must play a primary role'.

The European Union's approach to SIA of trade policy is conducted publicly, assesses impacts in all affected countries and is intended to be impartial. This creates potential conflicts with a negotiating process that is necessarily confidential and gives priority to the EU's economic interests. 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 (European Commission 2002a). Under the mechanism it has established for resolving such inconsistencies the Commission modifies its negotiating position if it considers the result to be robust, but otherwise it may not. In view of the high levels of uncertainty inherent in strategic impact assessments at the policy level (Partidario 2000) there is considerable scope for rejecting the findings of SIA studies on these grounds.

At the regional level of the EMFTA there are indications that the SIA findings may have had some influence on the negotiations, via representations from civil society groups and from parliamentarians in the EU and MPCs rather than through any observable change in Europe's negotiating position. At the multilateral level of the WTO Doha agenda negotiating positions have moved towards less ambitious proposals, because of limited progress in the negotiations rather than in response to the SIA findings.

The two examples examined above are fairly typical of all the SIA studies in showing that appropriately designed trade reforms have the potential to make a significant contribution to the development of developing countries, and, with appropriate parallel measures, can do so in an environmentally sustainable manner. It has proved difficult to realise these goals through a negotiating process in which the prime aim of each party is to maximise its own economic competitiveness in relation to the others. If international trade is to be steered more closely towards sustainable development goals the negotiating process needs to be constrained by stronger policy in non-trade areas.

7. Possible future directions for impact assessment of trade policy

Trade negotiators are not responsible for halting climate change, preventing global biodiversity loss or reducing world poverty. They operate under the assumption that increasing international trade improves economic performance and increases the resources that can be devoted to these issues, but responsibility for addressing them lies elsewhere. Trade agreements can readily comply with international environmental agreements or labour standards, but do not define them, and may interpret any lack of precision in a way that is favourable to trade. In negotiating a trade agreement negotiators aim for an outcome that is

favourable for their own country, and often for particular economic interests in that country. The SIA process as currently established contributes to the public dialogue, but it does not necessarily contribute to the negotiations or their outcomes. The mandate for Europe's trade negotiators is based on separate impact assessments whose findings are confidential.

The two forms of impact assessment used by the European Commission to assess its trade policy are not incompatible with each other. The IA process contributes to the development of a negotiating mandate, while the SIA process contributes to a public dialogue which may influence the application of that mandate. The SIA studies also provide information which non-trade policy-makers may use in developing measures to counter any adverse impacts of trade policy in Europe and elsewhere, or measures which combine with trade policy to enhance the potential benefits. Integrating the two impact assessment processes could in principle provide a better environment for policy learning in both trade and non-trade areas (Ruddy and Hilty 2007). It would however necessitate developing means by which the combined process would retain sufficient confidentiality to protect Europe's negotiating positions, while remaining sufficiently transparent to make a meaningful contribution to the public dialogue.

The principal difficulties of steering trade policy towards sustainable development goals lie in the lack of international agreements in non-trade areas that are sufficiently strong to restrain trade policy from having adverse impacts in those areas. Until such time as parallel mechanisms of global and regional governance have been strengthened impact assessments can play only a limited role (George 2007). That role may however be extended by wider use of the techniques which the EC has pioneered.

The findings of the EU multi-country studies have tended to be insufficiently specific to influence policy in developing countries, and are not necessarily trusted by policy-makers in those countries. They have however highlighted areas of concern that may be studied in more depth using similar methods by each country individually in the preparation of its own negotiating position. The United Nations Environment Programme (UNEP) has led a programme to help build capacity in developing countries for undertaking integrated impact assessments of this nature, with the support of the EC (UNEP 2006). An expansion of such assistance may be particularly beneficial for smaller developing countries and least developed countries, which do not currently have the capacity to support their negotiators with detailed assessments of the impacts of other countries' proposals, or even of their own proposals.

This would assist developing country negotiators in some respects, but it would not remove an inherent problem in the development of trade policy. In developing countries as well as in developed ones, negotiating positions tend to be strongly influenced by the interests of key economic actors. Social and environmental issues at the local, regional and global level often receive little attention even when reliable information is available.

Multi-country SIA studies similar to those undertaken for the EC might make a larger contribution to addressing this problem if undertaken on behalf of the wider international community, rather than being commissioned by one of the main negotiating parties. Such studies might for example be commissioned jointly by a group of international bodies such as UNEP, UNDP, ILO, WHO, UNIDO and UNCTAD, with a joint steering committee to supervise the process, and the WTO and other relevant international bodies invited to participate as observers. The findings of such studies would have no mandate to influence the WTO negotiations directly. However, they may carry sufficient weight and credibility to

reinforce the pressures that are brought to bear by concerned parliamentarians and global civil society as a whole. This in turn may contribute to wider understanding of the relationships between trade, development and environment, and to the evolution of global mechanisms through which their interactions can be managed more effectively.

Stronger initiatives may be taken at the regional level. In the Mediterranean region the EU and its partner countries cooperate through the Euro-Mediterranean Partnership. This pursues a wide range of development objectives, of which the creation of a free trade area is just one component. In parallel the EU and partner countries 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 EMP, 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, such as between the EU and ACP countries or between other OECD countries and developing countries.

8. Conclusions

Many of the studies undertaken in the EU's Sustainability Impact Assessment programme have shown that the economic benefits that have traditionally been expected from the efficiency gains of trade liberalisation are small, and that significant adverse impacts can occur in the absence of effective parallel policies at both national and international level. These findings have not had a major influence on trade negotiations, in which each country's prime aim is to maximise its own economic competitiveness. The principal difficulty of steering trade policy towards sustainable development goals lies in the relative weakness of international governance in non-trade areas. The article has identified steps through which the impact assessment techniques pioneered by the European Commission may make a stronger contribution to addressing this shortcoming at both global and regional levels.

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