

IMPACT ASSESSMENT RESEARCH CENTRE

WORKING PAPER SERIES

Paper No: 14/2006

The Influence of the European Union's Sustainability Impact Assessments of Multilateral and Regional Trade Negotiations¹

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¹ Paper prepared for the Latin American Trade Network Workshop on the Role of Research on Trade Policy Changes in the Developing World, Buenos Aires, Argentina, 31 July-1 August 2006

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1. Introduction

The European Commission has for the past seven years been engaged in an ongoing programme of Sustainability Impact Assessment (SIA) studies of all EU trade negotiations. The programme aims to ensure that policy choices are informed by an assessment of their potential economic, social and environmental impacts in both the European Union and its trading partners⁴, and that they are consistent with the overarching objective of sustainable development⁵. SIA studies have been carried out for both global and regional trade agreements, beginning in 1999 in the preparations for the WTO conference in Seattle. The SIA process includes extensive consultation and participation with stakeholders and other interested parties, alongside qualitative and quantitative research into the relationships between proposed trade measures and their potential effects.

Many difficulties have to be addressed in conducting meaningful assessments, and in integrating their results into trade policy-making (George and Kirkpatrick 2006). The paper reviews the extent to which these difficulties have been overcome, and the factors which have been influential in achieving successful outcomes.

1.1 The EU's SIA programme

The initial methodology for SIA of trade agreements 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 Ministerial Meeting in November 1999 (Kirkpatrick and Lee 1999). Following further development and refinement of the methodology (Kirkpatrick and Lee 2002), it has been applied to the WTO negotiations mandated by the WTO Ministerial Meeting in Doha, and to regional trade negotiations and agreements to which the EU is a party. Some 16 SIA studies have been undertaken to date by a range of organisations, as listed in Box 1. Full details of these are given in the assessment reports cited in the References.⁶

⁴ The Commission has produced revised Guidelines on how to conduct the required analysis, see EC (2005c).

⁵ 'We should make policy choices that ensure that our various objectives are mutually reinforcing. Actions that promote competitiveness, growth and jobs, as well as economic and social cohesion and a healthy environment reinforce each other. These are essential components of the overarching objective of sustainable development, on which we must deliver' (EC, 2005).

⁶ The SIA reports prepared by the Impact Assessment Research Centre at Manchester University can be accessed at www.sia-trade.org

Box 1. European Union SIAs

Pre-Seattle SIAs

Initial development of SIA methodology (*Kirkpatrick, Lee and Morrissey 1999*)

- Overview SIA (*IARC*)

WTO Doha Development Agenda

Further development of SIA methodology – (*Kirkpatrick and Lee 2002*)

- Preliminary Overview SIA (*IARC consortium*)
- Sector studies
 - Agriculture – major food crops (*SEI*)
 - Non-Agricultural Market Access - textiles and clothing, non-ferrous metals, pharmaceuticals (*ODI/IARC*)
 - Competition policy (*BIICL/WTI/IARC*)
 - Environmental services (*Cordah/Westlake/IARC*)
 - Distribution services (*ITSP/IARC*)
 - Forests (*Savcor Indufor/IARC*)
 - Agriculture – general (*ODI/IARC*)
 - Fisheries (*NRI/IARC*)
- Final Overview SIA (*IARC*)

Regional SIAs

- EU-GCC (*PriceWaterhouseCoopers*)
- EU-ACP (*PriceWaterhouseCoopers*)
 - overview SIA
 - sector/sub-region SIAs
- EU-Chile (*Planistat*)
- EU-Mercosur
 - overview SIA (*Planistat*)
 - sector/sub-region SIAs (*IARC consortium, in progress*)
- Euro-Mediterranean Free Trade Area (*SIA-EMFTA consortium/IARC*)
 - overview SIA
 - sector/sub-region SIAs – *in progress*

SEI – Stockholm Environment Institute, ODI – Overseas Development Institute, BIICL – British Institute of International and Comparative Law, ITSP – International Trade and Services Policy, NRI – Natural Resources Institute, IARC – Impact Assessment Research Centre, University of Manchester

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 (George, Kirkpatrick and Mosedale 2003). 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 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)

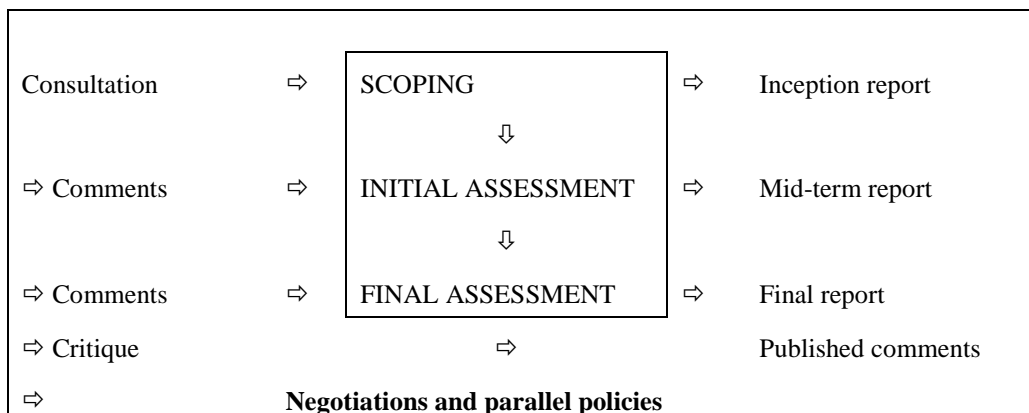
1.2 The impact assessment process

The SIA studies aim to inform the public debate on trade liberalisation, and through that debate, provide objective information to decision-makers to enable them to more fully integrate sustainable development into trade policy. To achieve this, the SIA process has to include extensive consultation and participation with stakeholders and other interested parties, alongside its technical analysis of causes and effects. The process gathers different views and evaluates them in the light of available information, to provide objective information that is intended to inform the negotiations and contribute to the design of national and international policy measures to enhance beneficial effects and mitigate potentially adverse ones.

A typical SIA project needs to examine all the trade measures under negotiation, and their potential impacts on all economic sectors in the affected countries. A broad assessment may be undertaken in a preliminary overview SIA, which identifies those measures and sectors for which more detailed sectoral SIAs are needed. Consultation takes place at key stages of either type of assessment, as summarised in Figure 1.

The technical aspects of the assessment follow the vertical sequence in the central box of Figure 1, interacting with the horizontal inputs and outputs of the consultation process.

Figure 1. Overview of the SIA process



1.3 The trade policy agenda

The first need in the technical assessment is to evaluate the causal relationships for all aspects of the trade policy agenda. The principal measures currently or previously under discussion in the WTO agenda are listed in Box 2. A regional trade agreement may include the equivalents of any or all of these measures.

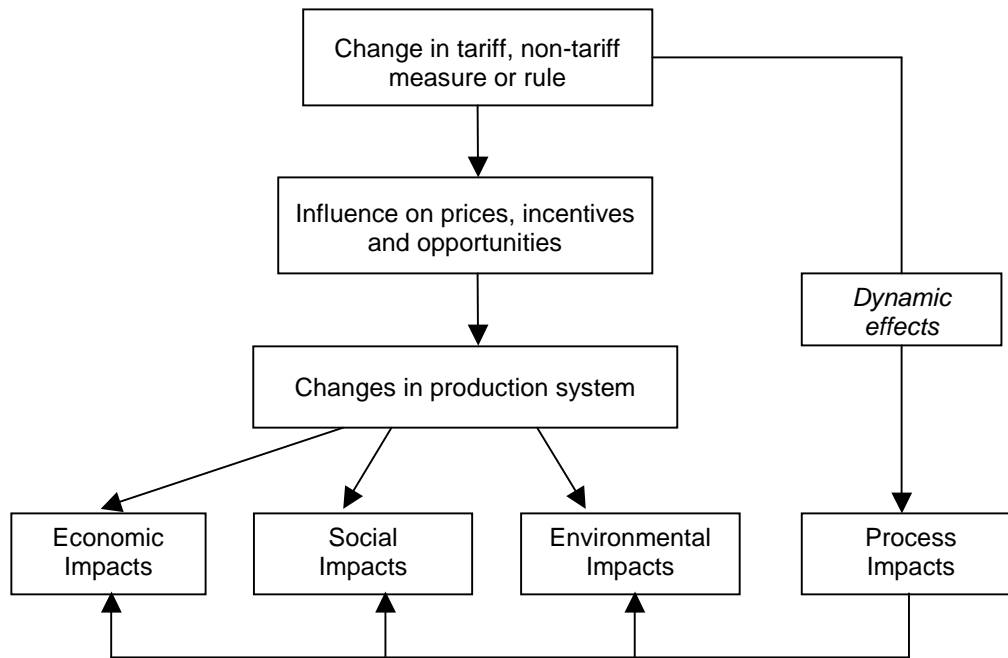
Box 2. The trade policy agenda

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

All of the components of a potential trade agreement have an economic effect, differing between countries, which will in turn have social and environmental effects. Some may also have direct social or environmental effects.

The analysis of causal relationships includes, where appropriate, those embedded in economic modelling studies, together with logical analysis of other relationships and empirical evidence from the literature. The process is summarised in Figure 2. For each component of the policy agenda, the central part of the technical analysis begins by identifying the effect of the proposed change on economic incentives and opportunities, in comparison with a baseline of no change to existing agreements. This will cause changes in the production system, differently in different countries, with consequent economic, social and environmental impacts that may interact with each other. Some impacts may be only temporary, occurring while the system adjusts to the change, while others will continue into the longer term.

Figure 2. Assessment of impacts



Long-term impacts may also arise through the impact of the trade measure on underlying economic, social or environmental processes. With or without trade liberalisation, economic development, social transformations and environmental degradation (or improvement) are taking place in response to various drivers of change. Any effect which the measure may have on accelerating, decelerating or otherwise altering any of these processes may have significant long term cumulative impacts on the economic, social or environmental aspects of sustainable development.

For some components of the policy agenda such as tariff changes, the causal relationships are fairly well understood, and may have been incorporated into economic and other models. For others the relationships are less well understood, and empirical evidence of past effects is limited. In such cases much of the analysis consists of evaluating the validity of the various claims made by negotiating parties for and against the proposed measure, alongside stakeholder concerns and further logical analysis of likely causes and effects.

2. Methodological issues

The EU's approach to trade impact assessment is not intended to evaluate the impacts of any particular negotiating position or trade policy, but rather, to provide information that may contribute to policy development in both the EU and its trading partners. In some of the early studies attempts were made to evaluate a range of alternative scenarios for a

potential trade agreement, but the large number of permutations combined with a relative lack of precision in assessment techniques made this impracticable. Recent studies have instead used a single scenario comprising an outer bound for each of the measures under negotiation, from which the likely impacts of any intermediate position can be inferred for each measure.

At the broadest level, sustainable development can be defined in terms of the Millennium Development Goals (MDGs). Some of the more recent SIAs have therefore assessed the impacts on each of the 18 MDG targets. While this provides important information, these targets are too general to give a clear indication of many significant impacts. At the regional level a greater degree of precision may be available in an established indicator set. For example, in the SIA of the Euro-Mediterranean Free Trade Area, impacts on each of the 34 priority indicators of the Mediterranean Strategy for Sustainable Development were assessed. Even here however, many of the indicators are designed to monitor the effects of other actions than trade liberalisation, while many of those that are relevant to trade are too broad to indicate important impacts.

The SIA methodology therefore steers the assessments according to nine aggregate indicators or sustainable development themes, and two indicators of sustainable development processes (Box 3). More specific analysis is guided by an initial scoping exercise based on consultation, a review of causal effects, and the evaluation of stakeholder concerns. More detailed ‘second tier’ indicators are developed from the significant impacts identified during the assessment, primarily for the purpose of subsequent monitoring.

Box 3. First tier indicators or themes

Economic:

- real income
- fixed capital formation
- employment

Social:

- poverty
- health and education
- equity

Environmental:

- biodiversity
- environmental quality
- natural resource stocks

Process:

- adherence to sustainable development principles
- effectiveness of sustainable development strategies

The SIA methodology does not itself evaluate trade-offs between the three sustainable development spheres, nor within each sphere, nor between countries. Some stakeholders have argued that it should do so, in order to assess whether a trade liberalisation scenario

does indeed contribute to sustainable development. The methodology is based on the view that this is not possible, since the balances and trade-offs can only be determined through subjective judgements, made differently by individuals with different values, and collectively through political processes.

Some of the SIAs have been able to give an indication of the economic cost of fully mitigating some of the adverse impacts, but the degree of uncertainty in assessment techniques is generally too high to do this comprehensively. More broadly, the assessments may identify an overall economic gain, part of which could in principle be directed towards parallel actions to mitigate adverse social and environmental impacts. Even this is fairly tentative however. In general, judgements on the balances and trade-offs between the impacts that are identified, and decisions on whether to implement the recommended mitigation and enhancement measures, are left to the political and negotiating processes.

2.1 The use of economic models

The main rationale for trade liberalisation has traditionally been the increase in static economic efficiency that can in principle be achieved if barriers to trade are removed, encouraging production in each country to concentrate on those goods and services in which the country has a comparative advantage. When a trade measure is changed towards this aim, production in any particular country will increase for some goods and services and decrease for others, with the balance made up by imports and exports to establish a new equilibrium. Economic models are used to calculate the production levels and trade flows in the new equilibrium, using either partial equilibrium or computable general equilibrium (CGE) techniques. The CGE models also estimate the change in economic welfare resulting from the production changes, giving an indication of the overall static economic impact in each country and the combined effect for all of them.

The changes in production levels and trade flows will in turn have social and environmental impacts, some of which can in principle be modelled through an extension of the economic model. Many of the studies have used economic modelling results to estimate changes in production, trade flows and economic welfare. The consequent social and environmental impacts have been estimated explicitly from the economic results, rather than being embedded within a model.

For the EU-Chile and EU-Mercosur SIAs a CGE model was created, and for the EU-GCC study (of the agreement with the Gulf Cooperation Council of the Gulf states) a partial equilibrium model was used. For the EU-ACP SIA (Africa, Caribbean and Pacific), modelling results contributed to the overall assessment, and a CGE model was set up for the Caribbean sector study. For all of the WTO SIAs and for the SIA-EMFTA (Euro-Mediterranean Free Trade Area), sufficient modelling results were already available in the literature to make a new model unnecessary.

The results of modelling studies have to be used with caution (Piermartini and Teh 2005). They have the great benefit of allowing quantitative estimates to be made of impact

magnitude, but the behaviour of a country's economy and of individual firms is rarely understood well enough to be modelled with any great precision. The data required are usually scarce, and many simplifying assumptions have to be made. The SIA-EMFTA analysed the results of some 80 modelling studies that had been done for the region. Most of these gave results for economic welfare changes due to tariff reductions for agricultural and non-agricultural goods, with significant differences between them, varying according to the assumptions made.

None of the modelling studies attempted to quantify the level of uncertainty in their numerical predictions, but an indication of this can be obtained from the spread of results for the overall effect on welfare. The spread of the results, from the lowest to the highest, was about twice the magnitude of their average value. For some countries, some models gave a positive result while others gave a negative one. Despite these variations, the results were consistent in showing that the impact on economic welfare from the expected efficiency gain was generally positive for most countries, but small. Similar results were found for the WTO studies, with a wide spread of results, but all fairly small.

These small changes in overall economic welfare are the net result of production increases in some sectors and decreases in others, with a corresponding rise in both imports and exports. Expressed as percentages of their original values, the individual changes are generally much larger than their net effect on welfare. Again, the different models produced a wide range of results, but gave a reasonable indication of the possible order of magnitude of the effects. This allowed estimates to be made of the consequent environmental impacts, and also some of the social ones.

The uncertainties associated with the economic modelling of services trade are even greater than those for industrial and agricultural goods. The same applies to most of the other components of a negotiation agenda. The trade barriers are generally qualitative in nature, and have to be expressed as quantitative equivalents in order to be modelled. Efforts to do so have been described by some of the leading modellers as highly speculative (Hertel and Keeney 2006). In consequence, qualitative considerations have generally played a larger role than modelling in these aspects of the SIA studies.

The principal difficulties associated with the modelling of trade impacts do not lie in the construction of a model, but in the high level of uncertainty in the theoretical descriptions of the effects that are modelled, and a corresponding lack of reliable data. The main challenge for a trade impact assessment is to identify the best available techniques for estimating the effects, and to make the assumptions and uncertainties associated with them fully explicit.

2.2 Short to medium-term adjustment effects

Most of the economic models that are used to estimate changes in trade flows, production levels and economic efficiency do not model the dynamic nature of an economy, either in terms of its normal rate of growth and the factors causing it, nor in terms of the

adjustment which takes place in response to a change in trade rules. Instead they estimate the difference between two hypothetical equilibrium situations. The comparison does not model the actual mechanisms through which production falls in one sector and rises in another. Nor does an equilibrium model, in itself, evaluate the time taken for these changes to occur, nor any time difference between production decreases and increases. It provides only an indication of an eventual outcome, from which the SIA can assess the likely impacts during and after the process of adjustment.

Some modelling studies go beyond equilibrium calculations to estimate some of these effects, which may also have been evaluated in other non-modelling economic research. Effects which need to be assessed include a potential rise in unemployment as production moves between sectors, positive and negative influences on wage rates for different types of work, differential gender effects, internal and external migration (particularly rural-urban), exchange rate changes, and a loss of government revenues resulting from tariff reductions. All of these can have significant social and environmental impacts during the adjustment period, and also subsequently if domestic policies are inadequate for responding to the changes. Social impacts come mainly from employment changes and pressures on government expenditure, while knock-on environmental impacts may result from population movements and changes in land use (as well as the more direct impacts of production changes).

Many of these impacts depend on complex effects which cannot be modelled with any certainty, and their assessment relies heavily on evaluations of past episodes of trade liberalisation. Ex-post assessments of the impacts of NAFTA, for example, provide much valuable information that is relevant elsewhere, as do the case studies in the UNEP trade impact assessment programme (e.g. Commission for Environmental Cooperation 2005, UNEP 2006). For the SIA-EMFTA valuable use was made of the experience in Tunisia, which embarked on trade liberalisation earlier and more rapidly than most of the other countries in the region. For many of the potential adjustment impacts, empirical evidence of past effects has proved to be one of the most useful prediction tools.

2.3 Long-term dynamic effects

While the traditional argument in favour of trade liberalisation is based mainly on the static economic efficiency gains available from maximum use of comparative advantages, most of the studies show that the effect is small relative to GDP. Some of the studies have shown that the longer term dynamic effects of trade rules on processes of economic, social and environmental change are more significant. A change in the rules may for example accelerate or decelerate the underlying processes that drive deforestation, biodiversity loss and climate change. In the social sphere it may add to or detract from economic incentives for wider education and increasing skill levels. In the economic sphere, the long-term indirect influence of a trade agreement on growth rates (positive or negative) is likely to be larger than the small one-off addition to economic welfare resulting from efficiency gains.

With increasing awareness of the relative magnitudes of these effects, the SIA studies have paid increasing attention to long term dynamic processes. A review of methodologies undertaken by the Secretariat of the UN Convention on Biological Diversity suggested that greater emphasis should be placed on the direct and underlying causes of biodiversity loss as a key first step in the assessment (UNEP/CBD, 2003). The WTO SIA for the forest sector adopted this approach, and examined in greater depth than previously the driving forces behind biodiversity loss, and the impact of the proposed trade agreement on those forces. The study revealed the need to strengthen international action to contain these driving forces, in order to counter the extra pressure that would occur through the liberalisation proposals. The study for fisheries continued this approach.

Another of the more recent studies, for the EMFTA, looked more closely at long term dynamic effects in the social and economic spheres, alongside corresponding environmental effects. The study showed that the trade liberalisation proposals could contribute to much larger economic and social gains in the developing countries of the region than those available from efficiency improvements, but only if accompanied by a range of other key strategic measures for economic development, social transformation and environmental conservation. Without such measures the benefits of trade liberalisation would be small, and accompanied by potentially large adverse effects.

The analysis of long-term dynamic effects is expected to become a key area for the future development of trade impact assessment methodologies. The trade community itself has become increasingly aware that the static efficiency gains available from further liberalisation are much smaller than had been previously thought (Polaski 2006). This may shift the emphasis away from comparative advantage towards other factors, such as the direct contribution to global GDP growth that comes from increased trade flows, the effect on relative growth rates in developed, developing and least developed countries, associated processes of economic and social transformation in all countries, and the impacts of all of these as drivers of climate change and biodiversity loss. To address these issues, impact assessment approaches will need to be developed that fully address the long term dynamic effects of trade policy, and their interactions with other policy measures at the national, regional and global level.

3. Evaluating the effectiveness of the SIA studies

Any evaluation of the effectiveness of a programme should in principle begin by specifying its objectives. The objectives of the trade SIA programme have been specified by the European Commission as:

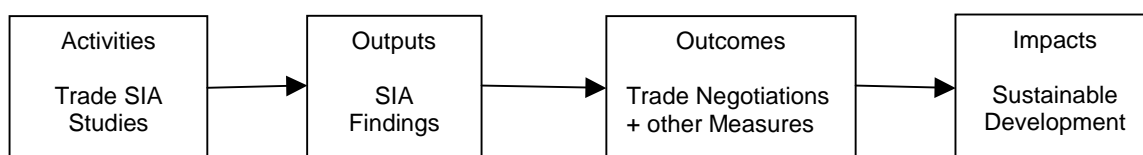
‘Sustainability Impact Assessment is a process undertaken before and during a trade negotiation which seeks to identify economic, social and environmental impacts of a trade agreement. The purpose of an SIA is to integrate sustainability into trade policy by informing negotiators of the possible social, 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.’⁷

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’ in terms of sustainable development.⁸

The implication for an ex post evaluation of the trade SIA programme is that the focus of the evaluation should be on the impact on sustainable development. At the same time, however, the evaluation of impact in terms of sustainable development should also be part of a more comprehensive evaluation process which is conducted at each stage of the causal chain linking the initial activity to the ultimate impact on the goal for the intervention.⁹ Figure 3 illustrates the different stages in the evaluation process, linking the initial activities to outputs, outcomes and impacts. Figure 3 also illustrates this general evaluation process in the context of the trade SIA.

Figure 3: Evaluation of Trade SIA



Impact evaluation

Evaluation at the level of final goals or impacts is confronted by the problems of attribution.¹⁰ The methodological problems of establishing a counterfactual baseline from which to assess impacts, and the difficulties of attributing changes to the initial policy intervention, have restricted the application of this evaluation approach¹¹. A further difficulty often arises with a mismatch between the time over which the impacts have their full effect and the period within which the results of the evaluation can influence decision making. However, the discipline of attempting evaluation at the

⁷ <http://europa.eu.int/comm/trade/issues/global/sia/faqs.htm>

⁸ The core impact indicators used in the SIA methodology are specified in terms of the economic, social and environmental pillars of sustainable development.

⁹ This corresponds to the causal chain analysis used in ex ante SIA

¹⁰ It is common practice in policy evaluation work to *assume* the link between outcomes and impacts. The World Bank Evaluation of the impact of its interventions on poverty reduction concluded: ‘The Bank faces challenges at the country and project levels in articulating and measuring the linkages between its interventions and their expected and actual poverty outcomes’ (World Bank, 2004)

¹¹ These are the same challenges that arise in ex ante impact assessment analysis, including Trade SIA, where the potential impacts are assessed in terms of sustainable development.

impact level may be rewarded in terms of the contribution it can make to the ongoing process of learning and improvement in policy selection and implementation.

Outcome evaluation

Evaluation at the level of outcomes will assess the effect that the activity has on the intermediate targets for the original activity. One method for conducting outcome evaluation is to carry out an audit trail to identify how the process of decision making is affected. This approach has the advantage of reviewing the process of managing the consultation suggestions and the internal decision-making involved in the preparation of the impact assessment. It is likely, however, to be relatively resource intensive (Yarrow, 2004). It also requires access to the key decision makers, which external evaluators may have difficulty in obtaining, since it increases the pressure on officials to be transparent and to justify decisions. An extension of the audit trail approach to outcome evaluation is to assess the impact in terms of organisational culture and awareness: for example, has the original intervention or procedure instilled a greater appreciation and understanding of the potential benefits of the process as a policy development tool? This type of assessment is largely qualitative in nature, which can pose problems in the interpretation of the results¹².

Output evaluation

Evaluation at this level will assess the outputs of the activity being evaluated. This may be done on a simple number gathering basis: how many reports have been produced per time period? What was the cost of each report? How many consultations were held with stakeholders? A more sophisticated approach will involve a set of criteria for assessing the quality of the outputs¹³.

¹² The National Audit Office, which has legal authority to investigate internal procedures within UK government, found that the evaluation process itself affects institutional behaviour: 'in essence, therefore, the fact of the NAO evaluation can help concentrate the minds of departments: a point borne out by the feedback discussions held with departments whose RIAs were in the pilot sample, following the completion of the first year's work by the NAO' (Humpherson, 2004, p.281).

¹³ Lee and Kirkpatrick (2006) carried out a output evaluation of a sample of EC Extended Impact Assessments undertaken by the European Commission. The reports were evaluated in five main areas, each of which was disaggregated into more detailed subcategories. Each area and subcategory is assessed and given a score which recorded the quality in terms of a scale which ranged from 'A - generally well performed, no important tasks left incomplete' to 'F - very unsatisfactory, important tasks poorly done or not attempted'.

Activities evaluation

Evaluation at this level will focus on the compliance with the components of the methodology and procedures followed. It is essentially process based, and concentrates on evaluating the inputs in terms of compliance with procedural requirements.¹⁴ Compliance testing typically involves a ‘yes-no’ tick-box approach to evaluation.¹⁵

3.1 Evaluation of trade SIAs

An initial evaluation has been carried out of the effectiveness of the trade SIAs, with the primary focus on outputs and outcomes. The integration of sustainable development into trade policies and accompanying measures was identified as a challenge 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. 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 (DG Trade, 2003:113) that:

- 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.

Some evidence is available on the impact of the SIA studies on the EU’s negotiators and negotiated outcomes 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’¹⁶. 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:

¹⁴ This level of evaluation follows the bureaucratic approach identified by Farrow and Copeland (2003).

¹⁵ Vibert (2004) undertakes a compliance evaluation of the reports prepared by the European Commission during the first year (2003) of implementing Extended Impact Assessments. The scorecard benchmarks three main aspects of RIAs, namely, their approach to the quantification of costs and benefits, procedural aspects such as whether alternative approaches to a policy question have been considered, and whether the lessons emerging from the RIA exercise are being taken into account in the outcome.

¹⁶ This text is taken from the DG Trade website.

- 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 not to be specific, such as raising awareness of EC delegations.

Further evidence on the impact of the studies may be obtained from attention received in the 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 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 requested 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).

3.2 Stakeholder views on SIA effectiveness

In order to obtain wider evidence of the impact of the SIA studies, a pilot questionnaire survey has been undertaken to solicit the views of stakeholders. The twenty responses obtained cannot be taken as a representative sample, but provide 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 4. 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)

These responses to the pilot survey give no more than an initial indication of the perceived effectiveness of the EU's trade SIA programme. To obtain a fuller understanding of the impact of the programme it would be timely and desirable to initiate a process of independent evaluation.

3.3 The role of impact assessment in decision-making

The stakeholder survey revealed that much 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 into the development of trade policy and related policies.

The European Union's approach to trade 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 conflicts 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 programme (SIA), and those conducted in parallel 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). 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 (EC 2002a), in which 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. 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 the greatest influence is likely to occur through EU technical assistance. Most of the SIA recommendations in this area are uncontroversial, and assist primarily in identifying priorities.

The greatest influence in this respect has come from regional trade agreements, and in particular for the most recent studies such as for the EMFTA. 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.

One of the biggest difficulties of integrating the SIA process into decision-making is that while the studies assess impacts on sustainable development, most of the agreements they

assess are not sustainable development agreements, but trade agreements, with no other authority to act as arbiter. Although the WTO has adopted sustainable development as one of its goals, it has no mandate to establish global environmental law, nor to address social disparities within and between countries. 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, and that significant adverse economic and social impacts can occur in some developing countries. However, neither the WTO nor any of the trade ministries negotiating regional agreements is responsible for these issues. In order to counter the potentially adverse impacts of trade liberalisation and to maximise the beneficial ones, and hence contribute to achieving the Millennium Development Goals, trade agreements need to be accompanied by stronger 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, such as between the EU and ACP states, or between other OECD countries and developing countries.

Beyond this, there is considerable potential for developing countries to strengthen their trade policy by conducting their own trade impact assessments. Most of the significant impacts identified by the EU studies do not occur in the EU, but in developing countries. The potential for significant economic benefits has in many cases been found to be strongly dependent on parallel domestic policies in the countries concerned, while the avoidance of significant adverse impacts is similarly dependent on domestic policy. In many developing countries, trade ministries lack the capacity to fully understand the effects of alternative policies on their own economic objectives, and also lack information on the economic costs of social and environmental effects. The multi-country EU studies can provide only a limited amount of detailed information of this nature, but have revealed a potential for single country studies to provide much more.

4. Conclusions

The EU's programme of Sustainability Impact Assessments of global and regional trade agreements has presented many challenges. These include the technical aspects of assessing impacts whose origins lie in complex economic effects, and potential conflicts with local, regional and global decision-making processes. In all these areas approaches have been developed which move some way towards addressing the issues, but many challenges remain.

Many of the studies have shown that the benefits that have traditionally been expected from the static efficiency gains of trade liberalisation are small, and that many of the most significant impacts occur through long-term dynamic processes. The analysis of these longer term effects and their interactions with other policy areas is expected to be a key area for future developments in trade impact assessment.

Potential conflicts have been identified between the impact assessment process and the decision-making process. While some of these have been satisfactorily resolved, attention needs to be paid to the decision-making process itself in order to better address the most significant regional and global issues that have been identified in the assessments. Most trade agreements have adopted sustainable development as a goal, but the bodies which negotiate them are not responsible for sustainable development, do not have the competence to define what sustainable development means, and are not subject to the requirements of any other authority except as provided through international environmental law and other mechanisms of regional and global governance. The paper has identified steps that might be taken at the regional level towards addressing these limitations, which might ultimately contribute to stronger global governance in non-trade areas, and help to make trade policy more readily steerable towards sustainable development goals.

Finally, the trade impact assessment techniques that have been developed for use by high income countries may prove to be highly appropriate for helping to strengthen trade policy in developing ones. For single country studies the decision-making processes are more straightforward, impacts can be studied in more detail, and recommendations can be made more specific. The integrated assessment of economic, social and environmental effects, by each country for its own purposes, may be particularly influential in helping developing countries to formulate their trade policy more effectively, and to play a stronger role in international trade negotiations.

Acknowledgements

This paper draws on work undertaken for the European Commission to develop and apply a methodology for assessing the impact on sustainable development of trade negotiations and agreements. It reviews the work of many other organisations involved in the programme, whose contributions are gratefully acknowledged. The views and opinions expressed are, however, those of the authors alone. Some parts of the paper were presented at the EU Trade SIA Stocktaking Conference, March 2006. Other parts summarise work presented in a previous paper, reviewing the methodological issues arising in the programme (George and Kirkpatrick 2006). The paper combines these two strands to draw conclusions that are particularly relevant to developing countries.

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