



Changing the Balance of Trade

WWF Briefing on
Sustainability Assessment of EU
Trade Policy

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Introduction

One of the greatest challenges facing the EU is to ensure that its social and environmental commitments are not undermined by developments elsewhere. Policy coherence is a particular priority in relation to trade since this is a cross-cutting issue that has major implications for almost all other areas of EU policy, notably development, social, environment, health, agriculture, immigration and security policies.

The importance of policy coherence was underlined by Heads of State in Gothenburg in June 2001, who called for mechanisms to ensure that all major policy proposals include a sustainability impact assessment'. Sustainability Impact Assessment – or SIA - is an innovative tool that allows policy-makers to consider environmental, social and economic impacts of policies in an integrated way. It differs from traditional evaluation methods in that it is proactive, aimed at guiding policy development from the earliest stage rather than simply assessing impacts of existing policies. It also covers the whole policy process, from initial problem identification, to weighing up the implications of different policy options. The overall aim is to identify the negative impacts of policies, and potential for positive synergies, so that ultimate decisions are no longer conflicting, but mutually supportive.

In the EU, as in other parts of the world, experience of applying SIA is still in its infancy. In the area of trade, the EU has made some advances, but progress has been slow. It is now critical that the SIA tool is put into practice so that it can start influencing policy decisions. Otherwise SIAs will lose credibility and support – not only within but also beyond the EU. This briefing paper analyses the existing shortcomings of using SIA in EU trade policy, and puts forward concrete recommendations to place SIA at the heart of future EU trade policy-making. It is aimed both at informing discussions at the seminar on *Changing the Balance of Trade*, and more broadly to increase the policy impact of SIAs.

Progress to date

Already in 1998, the European Commission announced its intention to carry out a Sustainability Impact Assessment (SIA) of the proposed new round of WTO negotiations. Although a new round was not in fact launched at Seattle in 1999, the Commission nevertheless undertook to carry out an SIA of whatever negotiations did take place in the WTO context, including negotiations on agriculture and services that have been underway since January 2000. The use of SIA in trade was strongly supported by the Council in 2002, which committed to developing 'Sustainability Impact Assessments in order to include in future trade negotiations a much stronger and more integrated sustainable development component.' (General Affairs Council, 6 March 2002)

To date, most of the Commission's efforts have focused on developing a standard SIA methodology, with only two assessments having been completed thus far: a broad qualitative study of the new WTO round (2000) and a brief study of the food crops sector (March 2002). However, a number of other studies are in the pipeline and will soon begin to produce data. DG Trade has also earmarked 10 % of its budget to SIA work over the next three years.

Experience with the two studies conducted so far suggest the Commission has a long way to go to ensure that the results of SIA are fully integrated within the decision-making process. The mechanisms by which SIAs inform trade policy are far from transparent and there is little evidence that SIAs are in fact influencing EU negotiating positions. Some basic procedural shortcomings have emerged which are thought to hinder the effectiveness of the SIA process, including:

- *Poor timing* – in some cases, negotiations on bilateral agreements have commenced before the related SIAs work has been sufficiently advanced. Many important decisions will have been taken before their output can inform the relevant trade negotiators involved.
- *Inadequate coordination with negotiators and negotiations* - unlike evolving trade negotiations themselves, SIAs are being undertaken by contractors according to rigid pre-determined deadlines and terms. The interaction between negotiators and SIA projects/consultants also appears to be less than desirable.
- *Limited stakeholder input into SIAs* – this appears to be limited, including input in the formulation of the SIA Terms of Reference. Rather than helping to build trust, SIAs may be fostering a sense of mistrust, particularly among stakeholders in developing countries. The exclusion of non-EU actors also makes it particularly difficult to pinpoint problems in the first place, or to assess impacts at the local level.

These issues must be addressed and rectified before SIAs can realise their full potential. It is urgent that the Commission develop the proper infrastructure to facilitate the effective use of SIAs. In so doing, it should examine the how and when SIAs are conducted and what can be done to help the integration of SIA results into the policy-making machinery. It is encouraging that DG Trade has begun a series of training sessions for its officials on SIA.

Key issues and options

The following discussion highlights some of the problems that have emerged with the Commission's SIAs so far, and suggests some solutions. It is not an exhaustive analysis and is aimed at sparking a debate on how to improve the policy integration of SIAs

Getting the timing right

It is critical that SIAs begin early – even before negotiating positions are formulated. Indeed they should inform these positions. SIAs should be ongoing, generating information on sustainability aspects of existing trade policies, identifying trends and their causes, and then feeding into the development of new policies. In effect, they should enable policy-makers to develop sustainable policies from the outset, rather than trying to find ways of improving bad policies. The later the start, the more restricted the scope of the assessment and its effectiveness.

SIA should also be able to consider fundamental issues such as the speed of trade liberalisation, or even its desirability, rather than just trying to offset negative effects. This approach should be explicitly recognised when devising the terms of reference and scope of SIAs, emphasising that SIAs should not only identify negative impacts, but also opportunities and alternatives.

Some of the questions participants may want to explore in the seminar are: How to assess a proposal that does not yet exist? How can SIAs generate information to guide negotiators from the outset? Should there be an ongoing SIA programme producing data on existing trade impacts and trends continuously?

Bringing SIAs closer to the policy-makers

Trade negotiations are highly dynamic, with new issues continuously being introduced into negotiating agendas. SIAs need to be able to evolve alongside the rapidly evolving negotiations. Experience with other impact assessment tools in Member States also suggests that SIAs are ideally carried out by those actually responsible for developing the policy. At the very least, policy-makers need to be closely engaged in the exercise, ensuring that their needs are met, securing their ‘ownership’, and ensuring the final results of SIAs can be responded to effectively.

The reality is that policy makers are not sufficiently involved while SIA contracts are rather undynamic. Improvements could be made simply by introducing more flexible SIA contracts and by increasing the Commission’s day-to-day involvement in managing the SIAs. Negotiators and senior officials could also be given a stronger role in defining the scope of studies, scheduling outputs so that they can influence negotiations, and ensuring that the eventual data is in a useable format.

Greater practical integration should not be at the expense of independence and transparency. Any increased role for the Commission should be accompanied by increased oversight and review from independent bodies.

Questions to be addressed in the seminar include: Are comprehensive reports the best format for the SIA output? How can the consultants and officials interact more dynamically and what are the implications of any greater interaction for the transparency of the process and stakeholder input?

Benefiting from stakeholder involvement

A key advantage of SIA is that it provides a platform for increased transparency and stakeholder involvement. SIA effectively provides a clear and structured approach that can be used to inform and involve stakeholders in the development of trade policies, in line with the EU’s international commitments. As well as enhancing the sense of public ownership and trust in resulting policies, greater participation often also opens up a new source for information for policy makers. SIAs can therefore benefit policy-makers and stakeholders, and thus help bridge the gap between EU policies, and their local impacts.

In practice, these opportunities have not been maximised, to the detriment of stakeholders and policy-makers. The exclusion of non-EU actors makes it particularly difficult to build confidence in the SIA process, while also limiting opportunities to assess impacts occurring at the local level.

EU and third country involvement in SIAs will depend not only on additional resources being available but also on practical ways of engaging relevant stakeholders. In particular, effectiveness of the SIAs will be greatly enhanced by ensuring the findings make their way to policy-makers and negotiators in the non-EU countries involved. Consideration could be given to conducting SIAs in partnership with trading partners and sharing the results. Trading partners and study countries could also be represented on SIA steering groups and should be fully informed of their progress. Acceptance and co-operation of trading partners will be critical in achieving the successful delivery of many mitigating and enhancement measures that emerge from the SIA exercises.

EU trading partners are interested in SIAs, but many are unaware of the EU programme and its aims. The Commission should put more effort into informing non-EU countries about its work in this area - perhaps through a series of regional workshops - and raise the profile of the tool. It should explain how it proposes to use SIAs and what the implications are for its trading partners.

Involving all the institutions

SIA of trade policies, like other SIAs, needs to involve the range of actors across the sectors, and across the different levels of government. At *Commission* level, the involvement of non-trade DGs should ensure consideration of broader issues, making it possible to identify both synergies and possible conflicts with existing EU policies. In particular, the effective delivery of mitigation and enhancement measures will require a close degree of co-operation between DG Trade and other DGs responsible for the on-the-ground delivery of EU policies. These DGs should consequently be closely involved in setting the terms of reference for SIAs, through to the formulation of mitigation and enhancement measures, as necessary.

SIAs are currently being taken forward by the Commission. While there are obvious reasons for this, it is important that SIAs are 'owned' by all EU institutions and Member States if they really are to influence policy outcomes. Otherwise, Council and Parliamentary influence can negate many of the assumptions of the Commission's initial SIA.

Possible options include:

- Expanding the role of the *European Parliament* – particularly in overseeing the SIA system and in increasing transparency. The Parliament secretariat could be charged with monitoring SIAs. Apart from reporting to the Parliament, the Commission could append the results of the SIA, along with an explanation of how these have informed negotiations.
- The General Affairs and External Relations Committee of the *Council* and the Article 113 Trade Committee should be intimately involved in the SIA process because of

its cross-cutting nature. SIAs should inform all discussions, rather than being tagged on to the agenda as separate items. Officials could as a matter of course be provided with the relevant SIA findings to aid their deliberations.

- *Member State* commitment is essential to the success of the SIA process since key decisions on trade policy are taken in capitals, often before discussions reach the 133 Trade Committee. Yet the current approach excludes Member States from the equation. As with non-governmental organisations and third countries, more effort should be made to involve Member States in the SIA process, and to inform them of SIA outcomes. A system of contact points within the relevant trade or foreign ministries could make a useful contribution here.

Generating political support

Experience with other impact assessment initiatives suggests that, even when other conditions are met, a lack of high level support will lead to assessments not being conducted, or being perfunctory or incomplete. Lack of political support often also manifests itself in inadequate financial or human resources to ensure assessments are effective.

In practice, SIA appears not to have been embraced at a high-level within the Commission. What is needed is an explicit endorsement by Heads of State. At the same time, the relevant officials also need convincing that SIAs add value, and do not simply add to their workload. Securing such a ‘bottom-up’ culture change will depend on encouragement and information on the benefits of SIAs, perhaps also linked with internal evaluation or performance reviews.

Conclusions

The EU institutions have repeatedly committed themselves to the development and use of SIAs, both in the context of trade negotiations and more generally in the drive for sustainable development. Despite the potential of SIAs, however, there are growing concerns that the SIA tool is but a cosmetic exercise to defend EU trade positions, rather than a real attempt to formulate sustainable trade policies and mitigate the negative impacts of trade agreements.

This paper suggests a number of areas where improvements could be made, ensuring the SIA tool is used to greatest effect. Many of these improvements will undoubtedly depend on additional financial and human resources being made available, and more effective use of existing funds. Real improvements are also likely to depend on whether there is a belief, among negotiators, that SIAs are of benefit to all concerned, and not just a way of dealing with social and environmental ‘side-effects’. Without this, SIAs may have minimal effect on decisions and will run the risk of becoming little more than an expensive, bureaucratic PR exercise.



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- conserving the world's biological diversity
- ensuring that the use of renewable natural resources is sustainable
- promoting the reduction of pollution and wasteful consumption

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