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**Research Report**

## The Relaunching of Negotiations on Green Goods and Services: Any breakthrough in Sight?

FERDI Policy Brief, No. B94

**Provided in Cooperation with:**

Fondation pour les études et recherches sur le développement international (FERDI),  
Clermont-Ferrand

*Suggested Citation:* de Melo, Jaime; Vijil, Mariana (2014) : The Relaunching of Negotiations on Green Goods and Services: Any breakthrough in Sight?, FERDI Policy Brief, No. B94, Fondation pour les études et recherches sur le développement international (FERDI), Clermont-Ferrand

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## The Relaunching of Negotiations on Green Goods and Services: Any breakthrough in Sight? <sup>1</sup>

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The Bali a minima agreement last December has given new hopes that the WTO is not dead---- The recent announcement that negotiations on the reductions of tariffs on environmental goods are to resume starting from a list of goods identified by APEC members in September 2012 gives hope that the triple win outcome of the Doha round—for trade, for development and for the environment—might materialize, at least partly. Or does it? This brève argues that unless the field of negotiations is widened, the initiative will not help much.

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1. This brève appeared as <http://www.voxeu.org/article/relaunching-negotiations-environmental-goods>



The decade-long negotiations on reducing barriers to trade in Environmental Goods (EGs) and Environmental Services (ESs) at the WTO failed to make any progress (Balineau and Melo, 2013). Against this stalemate at the WTO, in September 2012, 20 APEC members submitted a list of 54 products for which they would lower applied tariff rates to 5 percent or less by the end of 2015. And now, on January 24 at the Davos meetings, a group of 14 countries including many APEC members plus Costa Rica, the EU, Norway and Switzerland committed to pursue ‘global free trade’ for EGs starting from this APEC list. The joint statement reads that the group is to “... build on the ground-breaking commitment to reduce tariffs on the APEC list of Environmental Goods by the end of 2015 [...] to achieve global free trade in environmental goods”. This plurilateral deal “...would take effect once a critical mass of WTO members participates... and we are committed to exploring a broad range of additional products” (Davos, 2014).

Any step forward out of this decade-long impasse is to be welcomed and any reduction negotiated by this group in the ambit of the WTO will be extended to other non-participating WTO members. But how much significance should we give to this initiative for reaching free trade in green goods? New research shows that for EGs, unless Non-Tariff Barriers (NTBs) are included not much gain is to be expected. For Environmental Services (ESs), developing countries who would be the greatest beneficiaries of liberalization because of complementarities with reduction of barriers in EGs have committed to market access only in the context of RTA negotiations, usually with a Northern partner.

### ► Non-Tariff Barriers to trade in EGs are more important than tariffs

Our research (Melo and Vijil, 2014) shows that since the beginning of the Doha negotiations, the time profile for average applied MFN tariffs by income group (see the group definitions in table 1) drawn from HS-6 level data for the so-called ‘WTO list’ of 411 EGs moved in parallel with that for non-EGs, showing a small decline in average applied MFN tariffs across all income groups (except for the high-income group where tariffs were already very low at the start). However, no acceleration in the reduction of tariffs on EGs (or for other goods) was observed as the Doha negotiations proceeded. Second, the tariff group averages on the left-hand-side of table 1 indicate that there is not “much left on the table” to negotiate (even though it is the highest, the LIC group is only 7.3% (col. 1)). With half of world trade taking place among countries having signed a Free-Trade deal, average applied tariffs could be around half the values reported in the table, that is, except for a few tariff peaks, they are close to negligible for the high-income countries, precisely those which until the Davos declaration, had been willing to engage in tariff-reduction negotiations. Uniform tariffs instead of the current structure that would leave welfare unchanged are higher than the average tariffs (the TRI values) because of tariff dispersion, but they are under 10 percent even for the LIC group (col. 2).

What about an extension of negotiations to reach the ‘critical mass’ of WTO members needed for a plurilateral deal? A comparison of applied and consolidated tariffs shows that a standstill compromise that would consolidate tariffs at the applied rates would have little effect for the HIC group but the UMIC and LMIC groups would have to close a gap of 15 and 14 percentage points while the LIC would have to close a gap of 7 percentage points. While this would not be a break-through, it could still be considered a step forward.

**Table 1:** Overall protection by income group (Core list)

Income group	Applied MFN Tariffs [120 countries]						Overall Protection (Tariffs + NTBs) [70 countries]				
	EGs				Other Goods		Income Group	EGs		Other Goods	
	(1)	(2)	(3)	(4)	(5)	(6)		(7)	(8)	(9)	(10)
	Average Tariff	TRI	Import Elastic.	Percent increase in imports (50% tariff reduction)	Average Tariff	TRI		Tariff + NTBs	TRI	Tariff + NTBs	TRI
HIC (18)	3.1	3.7	-3.5	(1.9%)	3.7	15.6	HIC (14)	6.2	22.0	6.9	30.1
UMIC (29)	6.7	9.0	-1.9	(4.1%)	7.9	12.8	UMIC (23)	10.8	20.6	16.9	42.5
LMIC (27)	6.1	7.9	-1.5	(3.4%)	7.7	14.5	LMIC (23)	26.6	41.0	19.6	44.6
LIC (21)	7.3	9.2	-1.3	(3.9%)	13.3	19.1	LIC (10)	45.3	65.4	10.7	25.6

Notes: Source: Melo and Vijil (tables 1 and 2). EGs are defined following the core list of 26 products. Average tariffs and average tariffs + NTBs are import-weighted. Imports are mean values for 2010–11. Average values for each income group. NTBs calculations are made from HS-6 level estimates in Kee et al. (2008, 2009). Estimates in col. 4 are for a 50% reduction in tariffs.

Number of countries by income group in parenthesis. Income groups and abbreviation using 2011 GNI per capita,  $y_p$ , cut-offs in \$ in parenthesis: high-income (HIC:  $y_p > 12\,476$ ), upper-middle Income (UMIC:  $4\,036 < y_p < 12\,475$ ), lower-middle income (LMIC:  $1\,026 < y_p < 4\,035$ ), and low-income countries (LIC:  $y_p < 1\,025$ ).

The Trade Restrictiveness Index (TRI) is the uniform tariff which, if applied to imports instead of the current structure, would leave welfare unchanged. If tariffs (and) AVEs of NTBs were uniform and equal to the average values in cols 1,5,7 and 9 the TRI would have the same value as the average tariff.

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During the Doha negotiations, developing countries refrained from submitting lists because they feared an invasion of imports from OECD countries. Their average tariffs are indeed higher, but by how much would imports increase if they participated in tariff reduction negotiations? Columns 3 and 4 give proximate answers based on HS-6 level price import demand elasticities and applied MFN tariffs. Since these first-order partial equilibrium estimates are just obtained as the sum across products and countries aggregated at the country-group level, these estimates for a 50% across-the-board reduction in tariffs can be read independently. Interestingly, average import price elasticities (aggregated over all HS-6 level categories) increase as one goes up the income group categories confirming that low-income countries have few domestic substitutes. The estimated percentage increase in imports in column 4 is the product of tariff heights and the import elasticities. The largest average increase is for the LIC group be-

cause the tariff height dominates the elasticity effect. Yet, the increase is less than 4 percent. Aggregated over the 21 countries in that group the estimated increase in imports would amount to \$42 million, hardly a flooding of imports (estimates with the WTO list of 411 products would still only result in an increase of \$1.2 billion).

Measuring the equivalent of NTBs is difficult. Available estimates at the HS6-level cover only 70 countries and are based on NTBs collected in 2003–04. These NTBs include price control measures, quantity restrictions, monopolistic measures, and technical regulations but they do not cover other NTBs like government procurement, burdensome custom procedures, local content requirements that are likely to be more important for environmental policies. More problematically, unlike tariffs, not all NTBs are welfare-reducing. However, in spite of the smaller sample and the above caveats, as for non-EGs, the Ad-Valorem Equivalents (AVEs) of NTBs suggest much higher barriers to trade for EGs than

for non-EGs. For EGs, overall protection (tariffs plus NTBs) range from 6% for the HIC group to 45% for the LIC group. While the agenda for the negotiations is yet to be finalized, it is expected that NTBs will not be on the agenda as they are likely to be referred to the WTO's Technical Barriers to Trade Committee (as was the case during the negotiations for the plurilateral Information Technology Agreement).

### ► North-South Regional Trade Agreements (RTAs): the route for liberalizing trade in ESs.

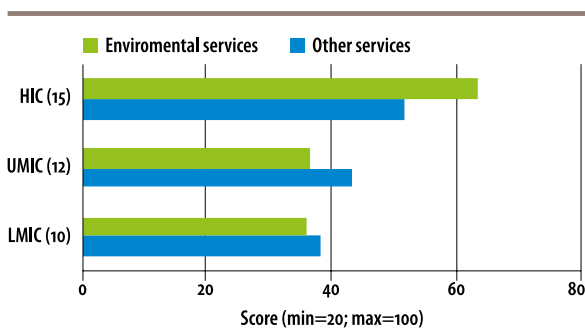
A reduction in tariffs and in welfare-reducing NTBs, should help diffuse products and technologies necessary to reduce environmental damage (e.g. pollution at source or at end-of-pipe). However, very often these products and technologies form part of environmental projects that include ESs (e.g. wastewater management services, water collection and purification, recycling). Thus environmental projects have a great degree of 'jointness' or complementarity between the services provided by EGs and those provided by ESs, especially in developing countries where case studies show that the ESs included in environmental projects incorporate an increasingly large array of services that extend beyond those that are classified as ESs (OECD, 2005). Hence, it is necessary to go beyond the standard UN CPC definition of ESs to get an approximation of the ESs that are most intensively used in environmental projects (see figure 1b).

RTAs in services have grown rapidly, but estimates of trade costs for services indicate that they could be an order of magnitude higher than trade costs for goods (Miroudot and Shepherd, 2013). Furthermore, the extra reduction in trade costs for RTA members are minimal, suggesting that it is difficult to give preferences in

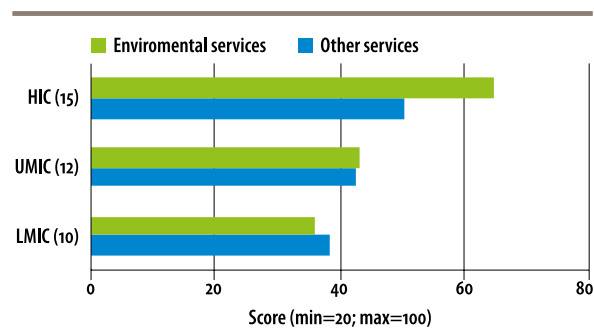
services as regulatory reform occurs de facto on an MFN basis so that commitments at the GATS (for those who made any since countries were not obliged to table offers) just consolidated members' existing services policies. Measuring commitments (e.g. national treatment, restrictions on foreign ownership, restrictions on foreign service suppliers) is the best one can do to approximate commitments that—as for goods—are not a measure of actual policies. Figure 1 shows the values for an Environmental Services Liberalization (ESL) index by income group adapted from Miroudot et al., (2013), which aggregates commitments by mode of supply for 155 services subsectors at the national and then at the income group levels. The ESL index values show higher commitments for the HIC group where commitments are also higher for ESs than for non-ESs, perhaps a reflection that the environment is a normal good. Carrying out the same estimates for a data base of 57 bilateral trade agreements for which an OECD country, India or China is a party shows that "liberalization" (as measured by the ESL index values) goes further in RTAs than multilaterally as most of the world market, particularly for infrastructure services, is in the hands of firms in high-income countries that have strong interests in prying open developing countries' markets. Indeed, in these RTAs, developing countries made substantial commitments almost opening entirely their ES sector which they had kept closed in the GATS.

**Figure 1:** GATS score commitments for environmental services and other services

**1.a. ES: narrow definition**



**1.b. ES: wide definition**



Source: Melo and Vijil (figure 3). ESL index adapted from Miroudot et al. (2013). A score of 20 is no commitments. Income categories as in table 1. No data for LIC in the service commitments database due to no commitments. The narrow definition only considers ES as defined by the W/120 list; the wide definition adds to these ES the following W/120 sectors: professional services, research and development services, other business services, and construction and related engineering services.

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It is likely that negotiations on ESs will also be off the agenda, as negotiators will hold off taking them on board, pending the outcome of the Trade in Services Agreement (TISA) negotiations. Should this agreement result in participants exchanging the best commitments they have so far undertaken in their PTAs (Marchetti and Roy, 2013), ESs could be substantially liberalized, as most of the opening has occurred on a North-South preferential basis. Because complementarities between trade in EGs and trade in ESs are especially strong in low-income countries, they are likely to lose the most if the agenda is not extended to tackle NTBs and ESs. Should ESs be on the agenda, negotiators are likely to stumble when it comes to agreeing on

a more appropriate list than the current UN CPC. And even with a more appropriate list of ESs, because it is far harder to monitor the fulfillment of commitments to liberalization, disincentives to negotiate on services are strong especially when negotiating partners lack trust in each other. Reflecting on the lack of success with liberalization of Services, Messerlin (2013) argues that ‘mutual equivalence’ rather than mutual recognition or harmonization is the better way to go and that this route-- which was followed by the EU Services Directive--might be best implemented on a regional basis where the trust necessary to agree on the regulations to be covered by mutual agreement is more likely.

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