Liberalization of Environmental Goods: Issues for South Asia

by

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Introduction

- In view of the increased intensity of global environmental problems, and as a result of the integration of the global economy environmental issue has emerged as an important area of concern for policy makers.
- Since the beginning of the 1990s when trade liberalisation took place at a faster pace, environmental aspects became a prominent phenomenon in the context of its interface with trade policies.

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Introduction

- The relationship between trade openness and the environmental quality has been discussed at length both theoretically and empirically by several authors during the last twenty years.

- An ideal situation would require compatible trade and environment policies as a result of which trade, environment and sustainable development can join paths in one direction.

Doha Ministerial Declaration on Environment

- Paragraph 31(iii) of the Doha Ministerial Declaration (DMD) mandated negotiations on " *the reduction or as appropriate elimination of tariff and non-tariff barriers to environmental goods and services*" as part of single undertaking.

- Environmental goods and services (EGS) have been specifically singled out in DMD though it was always on trade-liberalisation agenda of the WTO.

- Trade-environment issues as laid out in the work programme of the Doha Declaration are of critical importance to developing and least developed countries (LDCs) particularly in terms of market access opportunities for its exports to the global market.

Environmental Challenges of South Asia

- SA countries face multiple problems in the areas of environment which range from air and water pollution to soil degradation and depreciation of forest and fish resources to loss of biodiversity and ecosystem to urbanization and congestion.
- Some of the SA countries are also vulnerable to the risk of climate change which is feared to lead to sea level rise with severe impact on the lives and livelihoods of a large number of people in the country.
- For SA the challenges are (1) how to get market access without degrading the environment, and (2) how to protect the environment without affecting economic growth adversely and make progress in the trade liberalisation process.

Importance of EG negotiations for South Asia

- SA countries can tackle many crucial environmental problems through increased access to EGS at a lower tariff rate and Non Tariff Barriers.
- This can contribute to their economic growth as well as to the improvement of social indicators, such as health.
- Access to EGS at a lower cost gives an opportunity to access to technology and know how. This can also induce energy and resource-efficiency in the economy.

Objectives of the paper

- Highlight the state of play of the ongoing negotiations on environmental goods (EG) at the WTO;
- Discuss the performance of EG trade in SA, identify major opportunities and challenges presented by the DR negotiations on EGS liberalisation in SA and strategies these countries should take during the EGS negotiations;
- Meaningful statistics on trade of environmental services (ES) are not available SA on the basis of which any analysis can be made.

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Current State of Play in the WTO:
Definition and coverage of environmental goods

- No clear agreement among WTO Members on definitions and coverage of environmental goods.
- OECD and APEC lists used as starting point for discussions on EGs in the WTO after the Doha Declaration.
- Member countries continued to submit their own proposals.
- In 2007 the 'WTO 153 list' has been proposed by the Friends of EGs (mainly developed countries). This list is currently under discussion.

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Current State of Play in the WTO: EGs according to WTO 153 list

1. Air Pollution Control
2. Management of Solid and Hazardous Waste and Recycling System
3. Clean up or Remedial of Soil and Water
4. Renewable Energy Plant
5. Heat and Energy Management
6. Waste Water Management and Portable Water Treatment
7. Environmentally Preferable Products
8. Cleaner or More Resource Efficient Technologies and Products
9. Natural Risk Management
10. Natural Resources Protection
11. Noise and Vibration Abatement
12. Environmental Monitoring, Analysis and Assessment Equipment

Current State of Play in the WTO: Definition of environmental services

- Similar to EG there is no clear cut universally accepted definition of environmental services.
- The General Agreement on Trade in Services (GATS)'s Services Sectoral Classification List, W/120, sorts environmental services as: (a) sewage services; (b) refuse disposal services; (c) sanitation and similar services; and (d) other (cleaning services of exhaust gases, noise abatement services, nature and landscape protection services, and other environmental services).

Current State of Play in the WTO: Approaches to identify EGs

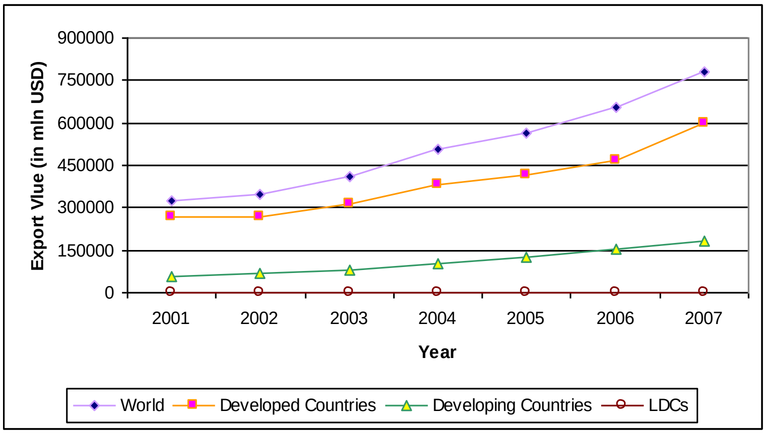
- List Approach: Countries list EGs and then negotiate, proposed mostly by developed countries, also by China. Criticised on the ground that it may include goods which have both environmental and non-environmental use;
- Project Approach: Imports of goods and services at concessional terms would be allowed for environmental projects approved by a designated national authority based on criteria developed by the WTO Committee on Trade and Environment (CTE). Proposed by India, criticised by developed countries.

Trade of EGs by regions, WTO 153 lists

- The market of EG trade is dominated by the developed countries with a share of 69%
- Developed countries make up 76.4% of EGs exports; developing countries 23.5%; and LDCs only 0.1%.
- Developed countries make up 61.2% of EGs imports; developed countries 37.9%; and LDCs 0.8%.

Trade of EGs by Regions

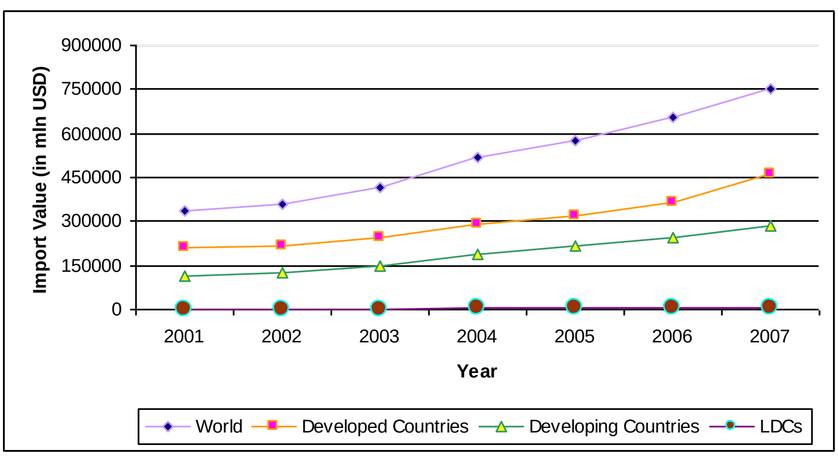
Growth of Environmental Goods Export, 2001-2007



***Source:* ITC Trade Map.**

Trade of EGs by Regions

Growth of Environmental Goods Import, 2001-2007



***Source:* ITC Trade Map.**

EG Trade by SAARC, 2007

- Among SAARC Countries India's share in both export and import was the highest-91% and 79% respectively.
- In case of imports Bangladesh is in the second position with 6% share of total SAARC EG import.
- In case of export Pakistan stands next to India with 12% share in total SAARC EG export.
- Overall South Asia's share in EG trade is very little compared to South Asia's share in global trade.
- South Asia comprises 0.71% of export and 1.75% of import share in global EG trade.

Table 1: : Total export of environmental goods

Country	Total Export (USD in mln)	
	2001	**2007**
Afghanistan	0.00	1.71
Bangladesh	137.29	351.10
Bhutan	0.27	0.27
India	940.39	5022.09
Maldives	0.10	0.00
Nepal	0.00	29.95
Pakistan*	40.13	88.65
Sri Lanka	13.57	48.02
Total South Asia	1131.74	5541.78
Total World	323041.99	783206.37
SA's Global Share	0.35	0.71

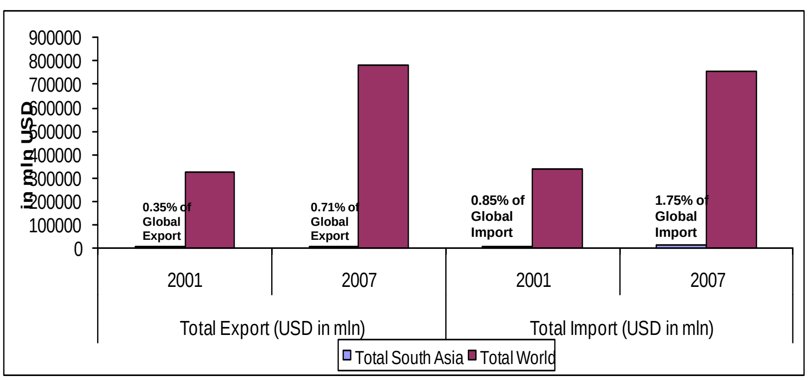
*Pakistan refers 2003 data instead of 2001
Source: WITS Database

Table 2: : Total import of environmental goods by SAARC

Country	Total Import (USD in mln)	
	2001	2007
Afghanistan	4.76	156.15
Bangladesh	297.31	488.00
Bhutan	1.53	9.28
India	1807.96	10360.44
Maldives	24.06	68.76
Nepal	0.01	50.17
Pakistan*	523.69	1696.17
Sri Lanka	172.25	351.60
Total South Asia	2831.57	13180.57
Total World	333793.60	753796.24
SA's Global Share	0.85	1.75

*Pakistan refers 2003 data instead of 2001
Source: WITS Database

Trade of EGs by SAARC 2001 & 2007



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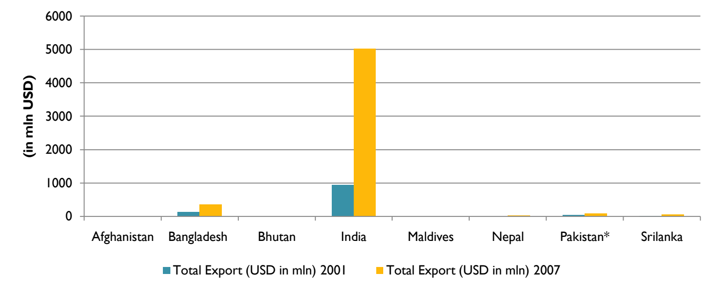
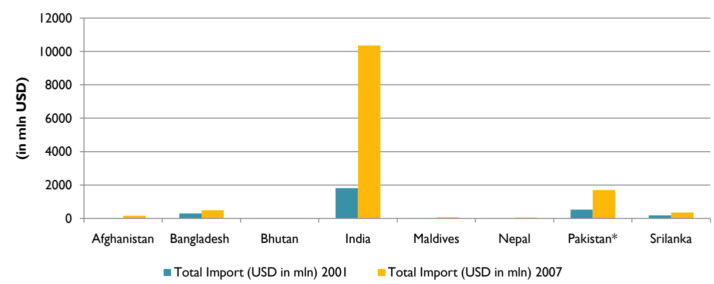
Source: WITS Database

Trade of EGs by SAARCs, 2001 & 2007





*Pakistan refers 2003 data instead of 2001
Source: WITS Database

Top 10 EG Export of SAARC, 2007

- **At 6 digit level HS code top 10 EG exports comprise 46.06% of SA EG exports**

1. Parts for diesel and semi-diesel engines
2. Taps, cocks, valves and similar appliances
3. Static converters
4. Wind-powered generating equipment
5. Photosensitive semiconductor device, photovoltaic cells & light emit diodes
6. Jute and other textile bast fibres, raw or retted
7. Articles, iron or steel
8. Towers and lattice masts, iron or steel
9. Parts of machines & mechanical appliances havg individual functions
10. Sacks & bags for package of goods of jute or of other textile bast fibers

Top 10 EG Import of SAARC, 2007

- **At 6 digit level HS code top 10 EG imports comprise 34.35% of SA EG import**

1. Machines & mechanical appliances having individual functions
2. Air or gas compressors, hoods
3. Static converters
4. Taps, cocks, valves and similar appliances
5. Parts of electric motors, generators, generating sets & rotary converters
6. Articles, iron or steel
7. Measuring or checking instruments, appliances and machines
8. Parts for diesel and semi-diesel engines
9. Parts of machines & mechanical appliances having individual functions
10. Gears & gearing, ball screws, gear boxes, speed changers/torque converters

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Tariffs on SAARC EG

- It has been estimated that complete elimination of tariffs and non-tariff barriers would lead to an average increase of trade in clean coal technology, wind/solar power generation and efficient lighting technology by 13.5 percent (World Bank 2008);
- The effective applied tariffs on top 10 exports of SA range between 0.83 to 14.96%;
- The effective applied tariffs on top 10 imports of SA range between 3 to 13%;

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SA strategy for EGs negotiations: List vs Project Approach

- List approach does not emphasise the need for technology transfer adequately.
- Project approach stands to offer better opportunities for SA in terms of market access since this approach is supposed to enable technology transfer which can in turn help improve the compliance on technical and sanitary requirements of SA.
- Many industries in SA are in the category of SMEs which lack financial and technological capability to comply with requirements set by the importers of the developed countries.

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SA strategy for EGs negotiations: inclusion of products of SA interest

- SA has interest in EGs which are agricultural and natural resource based. These environmentally preferred products (EPP)
- In determining EPPs, the method of processes and production methods (PPMs) is used - to examine how products are grown, extracted, manufactured and provided in a sustainable manner in all or some stages of their life cycle;
- But the use of PPM to determine the environmental benefits of agriculture and natural resource based products such as forestry and fisheries involves labeling and certification schemes which may turn into environmental protectionism at times.

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SA strategy for EGs negotiations: DFQF and S&DT for SA LDCs

- It is likely that many of the EGs will fall under various preferential programmes offered to LDCs by developed countries;
- Therefore, if these products are listed as EGs, tariff will be reduced at a faster pace for these items which will erode LDCs' preferences in those markets and reduce their competitiveness;
- SALDCs should demand for special and differential treatment (S&DT) for improved market access for their products which have less negative environmental impact and which are derived in an environment-friendly way.

SA strategy for EGs negotiations: elimination of Non-Tariff Barriers

- Standards, certifications, and environmental regulation limit trade to a great extent.
- Products from developing countries and LDCs face difficulties in entering foreign markets due to a lack of appropriate standards for their products, which may be quite stringent to protect domestic suppliers.
- The lack of uniformity of environmental requirements and technical regulations in different national markets are known to affect the type of EGs that are used to meet environmental requirements, and thus act as an NTB.
- Identification, harmonisation and elimination of NTBs for products identified as EGs are needed in order to facilitate trade in such goods by SA.

SA strategy for EGs negotiations: review of IPR regime and technology transfer

- Flexibility in the TRIPS Agreement in order to solve problems of patented climate friendly technologies has been demanded by countries.;
- Article 66.2 of TRIPS which mandates Members to take measures to encourage technology transfer should be implemented for climate technologies.;
- SA should also be watchful of any attempts of dumping of old technologies by developed countries in the name of technology transfer.

SA strategy for EGs negotiations: technical and financial assistance

- In order to take full advantage of liberalization of EGS technical and financial assistance is essential.
- Such assistance is needed not only for buying clean technologies but also for addressing any probable negative impact of liberalization on SA.
- Support can be sought from the Aid for Trade (A4T) package.

Conclusion

- The negotiating strategy of SA should stem from their own requirements for import and potential for export of EGs.
- Additionally, domestic social, political and economic factors need to be kept in mind in arriving at a decision on liberalising EGs market in SA.
- Opportunities and challenges for liberalisation of EGs should be examined through in-depth benefit-cost analysis on a case by case basis.

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Conclusion

- There is a dearth of adequate capacity in terms of general awareness as well as in terms of understanding on the issues of EG negotiations among SA, except India.
- These lacunae may severely undermine their policy efficacy in the related area in terms of identifying their export and import interests of EGs.
- It will be useful for SA to engage themselves in exploring the benefits and costs associated with liberalization of the EGs in order for them to be able to engage themselves fully in the negotiations.

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Thank you
for your attention