

Trade and Environment Briefings: Trade in Environmental Goods



International Centre for Trade
and Sustainable Development

Introduction

Liberalising trade in environmental goods can create new markets and export opportunities, thus supporting export-led development strategies. In addition, trade liberalisation can provide access to green goods and technologies at lower cost and greater efficiency. Increased deployment of cheaper and better-quality environmental goods helps countries pursue their national environmental policy objectives and counter environmental degradation and climate change, facilitating the transition to a green economy.

Background

Negotiations on environmental goods and services (EGS) are part of the World Trade Organization (WTO) Doha Round. The objective of paragraph 31(iii) of the 2001 WTO Doha Declaration, which called for the “reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services,” was to create a “win-win-win” situation for trade, the environment and development. The mandate, however, defined neither what environmental goods are nor the speed or depth of liberalisation to be achieved.

There is no international agreement on the definition of environmental goods and services. A number of bodies have proposed definitions, but these have not been universally adopted. For instance, the Organization of Economic Co-operation and Development (OECD) has defined the environmental goods and services industry as: “activities which produce goods and services to measure, prevent, limit, minimise or correct environmental damage to water, air and soil as well as problems related to waste, noise and ecosystems.”

Lack of agreement on how to define and categorise environmental and climate-friendly goods and services has been one of the main barriers to progress in negotiations on liberalisation of trade in such products at the WTO. Many member states have provided lists of proposed environmental goods for tariff reductions. Proposals put forward thus far cover several broad categories, including air pollution control, renewable energy, waste management, water treatment, environmental technologies, and carbon capture and storage.

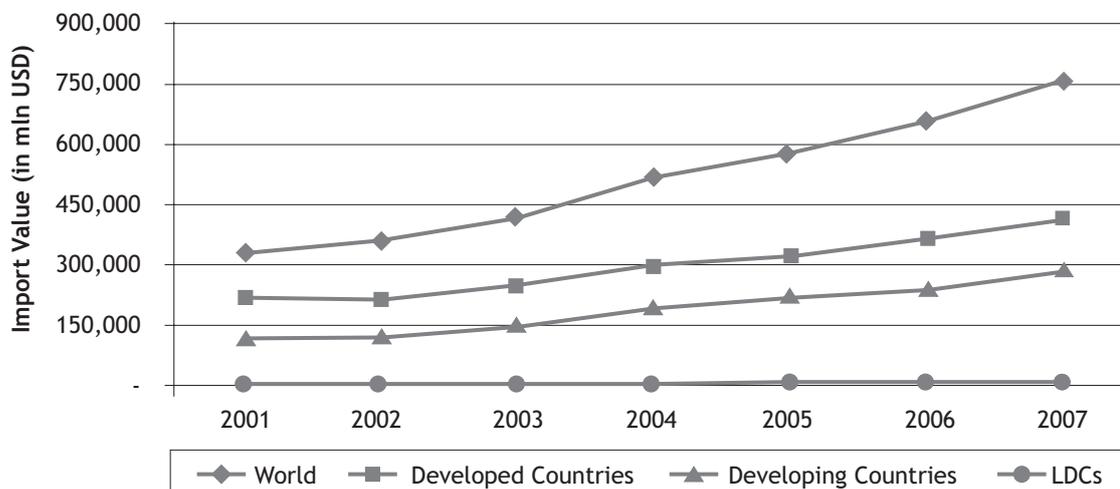
Opportunities

The greatest growth potential for environmental goods (EGs) is to be found in developing countries. Many of them are now beginning to realise the

opportunity for investing in environmental infrastructure and are starting to support this trend by putting in place stronger regulatory frameworks. China and Brazil in particular have focused on the production and export of EGs as a priority, rapidly becoming market leaders in many areas such as renewable energy. Combined with

increasing environmental awareness internationally, these trends are creating new and dynamic opportunities for trade in EGs. Between 2001 and 2007, the total value of EGs exported more than doubled, with both developed and developing countries experiencing similar levels of growth (see figure 1).

Figure 1: Growth of environmental goods export, 2001-2007



Source: UNDP, 2010

Some developing countries, however, have expressed concern that increased competition from cheaper imports would have an adverse effect on their domestic economics and the development of new green industries. This is changing, albeit slowly, as national priorities shift towards mitigating environmental damage and emerging economies become significant players in the production and export of various clean technologies.

Challenges

Much of the debate within the WTO negotiations has centred on the identification of specific environmental goods slated for liberalisation. While there is some overlap between the lists of products proposed by members, when compiled they comprise 514 individual environmental goods.

Developing countries' participation in the negotiations has been limited. The reduction of barriers to trade in environmental goods has been promoted by developed countries, such as the members of the European Union, Japan, Norway and Switzerland. Many developing countries have expressed concerns that most goods

listed to date are not of export interest to them. By bringing down tariffs on these goods, they risk losing tariff revenue. While they would gain access to less expensive environmental goods, such imports may also compete with their own potential infant industries. In addition, they can make access to environmental goods less expensive at any time by unilaterally lowering tariff rates. Some have also raised concerns that environmental negotiations might distract attention from development priorities and that subsequent environmental measures might restrict market access for domestically produced goods.

Despite the Doha Declaration mandate to reduce or eliminate tariff and non-tariff barriers to environmental goods and services, ten years later substantial barriers to trade remain. Overall it is estimated - using a sample of environmental goods in renewable energy, environmental monitoring and assessment, waste management, recycling and remediation - that average world tariffs on EGs are bound at a level of 8.7 percent, almost three times higher than the average applied rate for all goods - considering full use of preferences - at 3 percent.

Table 1: Bound and applied tariffs on environmental goods (%AVE)

		Importer				
		ACP*	BIC*	Developing	OECD	WTO
		Bound tariffs				
Exporter	ACP	44.9	27.6	25.7	2.5	15.5
	BIC	41.8	31.7	24.1	2.4	7.0
	Developing	41.3	16.3	24.1	2.3	7.8
	OECD	38.7	12.2	23.5	3.0	9.5
	WTO	40.0	13.7	23.7	2.7	8.7
		Applied tariffs**				
	ACP	10.7	12.1	7.9	0.4	4.8
	BIC	11.7	14.1	5.5	1.7	2.7
	Developing	11.4	8.5	5.8	0.6	2.2
	OECD	8.1	8.5	4.0	1.9	3.3
WTO	9.6	8.8	4.5	1.6	3.0	

Source: Laborde & Lakatos, 2012.

* ACP - African, Caribbean and Pacific Countries, BIC - Brazil India and China.

** Applied tariff as used in this context refers to both applied tariffs on an MFN basis and applied preferential tariffs depending on whether the trading partner is awarded preferences or not. It also assumes a full utilisation of preferences.

As depicted in Table 1 above, the margin for improving market access for environmental goods exports from LDCs and developing countries to developed countries in terms of tariffs is limited. This is particularly the case for exports destined for OECD countries, which impose lower tariffs on goods from developing countries under their Generalised Systems of Preferences. The real opportunities lie within South-South trade, where EGs face much higher bound and applied tariffs.

Although not as easily quantifiable as tariffs, non-tariff barriers have potentially significant impacts on trade flows. For environmental goods, non-tariff barriers most commonly take the form of technical regulations, which include product characteristic requirements, as well as testing, inspection and quarantine requirements.

No matter in which forum the liberalisation takes place, many emerging economies have seized the opportunity to become serious players in the export of a number of EGs, while many other developing countries and LDCs have struggled to enter the market due to significant technological barriers to entry. Thus, the liberalisation of EGs alone will not produce the desired result. In order to promote all facets of sustainable development, liberalisation must be part of a broader initiative that incorporates special and differential treatment, as well as technical and financial assistance to developing countries.

What's next?

The market for environmental goods looks set to grow substantially over the coming years. The successful conclusion of the on-going WTO Doha Round would offer a number of potential opportunities to support growth in the trade of environmental goods, including by reducing tariffs and enhancing market access. As many environmental goods are closely related to environmental services (see Briefing Paper on Trade and Environmental Services), liberalisation would be greatly enhanced if negotiations took a holistic approach to both categories. A number of alternative possibilities, including within the current WTO framework, have been raised to promote trade in environmental goods:

- WTO members could consider an initiative similar to the Information Technology Agreement (ITA). The ITA was open to voluntary participation, but concessions were extended on a most favored nation basis to all WTO members. The agreement would come into effect when a certain number of members, constituting a minimum percentage of trade in EGs, joined. Such an agreement could lie within the WTO framework.
- Another option would be a plurilateral treaty similar to the WTO Government Procurement

Agreement, which members could opt to join or to stay outside of. The trade concessions would extend only to participating members. Such an agreement could also eventually be made multilateral (with benefits extending to the entire membership) once a minimum number of countries joined.

- And finally, countries could opt to pursue liberalisation of certain environmental goods and services through regional or bilateral trade agreements. This is becoming an increasingly prevalent option. The most ambitious initiative to date has been tabled in the Trans-Pacific Partnership negotiations currently underway.

Resources

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About the United Nations Environment Programme (UNEP), www.unep.org/

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