

Challenges and Opportunities in Reviving the Environmental Goods Agreement: The OECD's Pivotal Role in a Changing Trade Landscape

Aout 2023 - Etude de cas



After the collapse in 2016 of the Environmental Goods Agreement (EGA) negotiations over definitional issues, environmental goods liberalisation has currently regained momentum among trade policy makers.

Discuss the main challenges in achieving progress towards an agreement and the potential contributions of the OECD as an organisation to facilitate the process.

Key takeaways:

The world has drastically changed since the failure of the negotiation on Environmental Goods.

→ *The emerging forms of multilateralism, the new composition of international trade with the dynamic on trade on services, technical evolution regarding the HS system and the impact of non tariff barriers call for a renewed approach.*

→ *The approach by supply chains, as environmental goods are both intermediate, and final products is critical. The contribution of the OECD could rely on its expertise in the domain (stemming from TIVA and other leading analysis).*

The goal of the Environmental Goods Agreement negotiations was to liberalize tariffs on more than 50 environmental goods. The main reason of the failure of this process was the lack of consensus regarding the extension of the Asia-Pacific Economic Cooperation (APEC) list. These discussions took place now almost 10 years ago, and the lists (being from APEC, WTO, OECD) are now almost 20 years old. The economic and international trade landscape have changed, so has the geopolitical landscape and the perspective on industrial policies regarding climate transition. In this note, we will first present the main challenges that could today help the consensus building in this area before focusing on what the OECD as an institution could help.

1. The world has changed in the last 10 years: main challenges in achieving progress toward a consensus regarding Environmental Goods (EG) rely on a very different context than the initial negotiation.

Among the numerous changes to the economic and trade landscape there are at least four main domains that needs to be taken into consideration:

- **The multilateral landscape has evolved.** The initial negotiations of EGA took place between a group of 14 countries (representing more than 90% the EG) in a World Trade Organization that was losing political traction. Now, with new inclusive forums such as the Trade and Environmental Sustainability Structured Discussion (TESSD), focus and inclusive discussions may take place on a different pace. The creation, following MC12 of a working group on the issue of EG testify that the dynamic is changing.
- **The composition of trade has changed**, so broader approach is needed to encompass not only the trade in goods but also in services. In 2022, trade in services represented 25% of world exports especially with the growth in intermediate services (research and development for instance). This trend show that services will contribute to the flows of environmental goods. Negotiations need to take this onboard. It is also an opportunity for Low Income Countries. Africa, even if the continent starts from very low levels, recently experienced significant rise in export of services for instance RD services +448% between 2011 and 2019 according to WTO data reported by Baldwin (2022).

- **Technical evolution such as the evolution of the Harmonized system (HS) nomenclature** could also help distinguish what is, and what is not an EG. Yet, taking again the argument of Baldwin (2022), the multilateral community will have to better integrate scientific analysis into their rationale to come to a consensus.
- **Technical barriers to trade are as important as tariffs.** As illustrated by the recent presentation at the TESSD meeting by the UK representative, one critical challenge that was not central during the previous negotiations will be the technical barriers to trade, or more broadly all the non-tariff barriers. UK found a decrease in technical barriers but still a significant effect of regulation on diversification.

This last point leads us to, how the OECD could contribute to the dynamic of consensus building around EG. The focus on global supply chain could help steer the discussions to a more productive direction.

2. The OECD as global cooperation institution could put forward an analysis based on global value chain to demonstrate the urgent need for EG liberalization that is compatible with climate targets and sustainable development.

Working hand in hand, as a knowledge partner, with WTO Environment Committee and TESSD, the OECD could contribute mainly with its analysis on global value chains and the need for resilient supply chains by :

- **Contributing to standard setting.** One key aspect of trade of EG is trade of critical minerals. The supply chain approach developed by the OECD will help governments and private companies to implement Responsible Business Conduct guidelines (notably the OECD Guideline for Multinational Firms). Indeed, a great part of EG supply chains relies upstream on critical minerals that have to be mined. The working conditions of miners and overall sustainability (in terms of environmental and biodiversity impact) are instrumental in this perspective.
- **Shedding light on how trade facilitation can help.** One crucial aspect of a resilient supply chain is to get goods from where they produced to where they are needed (for production or consumption) fast and efficiently. The formalities and red tape at the borders are areas where public intervention is crucial, both in normal time and during crisis.
- **Contributing to a better knowledge of subsidies.** EG are and may stay a preferred area for subsidies. The subsidy race will favor the large economies or unions for instance US and EU already voted large package to finance green transition (IRA, Green Deal) amounting around 370bn\$. Such scale is unreachable by smaller countries even developed ones such as UK and Singapore. This race will be detrimental to competition - for instance Germany voted a will offer 11bn\$ to allow Intel to establish a 33bn\$ semi-conductor plan on its territory. This kind of support does not incentivize competition in this already concentrated market. The work launched by OECD, WTO, IMF and World bank around subsidies, notably in the industrial sector will help integrate to the debate this crucial dimension.

To conclude, the economic landscape has radically changed since the failure of the first negotiations. The focus has shifted and it represents a great opportunity for an institution such as the OECD to contribute to a renewed debate including discussions on supply chain, resilience, sustainability, and subsidies. The new inclusive forums based on voluntary nations such as the TESSD or IFCMA, allow to be more optimistic. Yet, there still are pending issues such as the settlement of climate related disputes.