

CUTS Comments on Trade Sustainability Impact Assessment on the Environmental Goods Agreement

1. Introduction

1.1 The European Union's Trade Sustainability Impact Assessment (Trade SIA) on the Environmental Goods Agreement (EGA) negotiations, also known as the Green Goods Initiative, has presented a comprehensive assessment of the economic, social, and environmental impacts, including sectorial case studies, of the EGA on the EU and 16 other member countries as well as the WTO membership as a whole. As noted in the Green Goods Initiative, the "EGA would need to ensure that the agreement would still be relevant for states not currently members of the EGA. This would expediate [sic] expanded membership and an eventual, more encompassing agreement with deeper and more widespread [sic] impacts by covering a greater share of the global trade in EGs."¹

1.2 Given the relevance for eventual expanded membership in the EGA, the Green Goods Initiative should take into greater account of developing country economies and the specific situation of India in its assessment and recommendations. This would be particularly relevant in Chapter 7.6 on "*Opportunities for developing countries*" under the Economic Impact section, given that the EGA will extend its plan for EG liberalisation to developing countries like India. This assessment of opportunities and potential impact for developing countries should also be included in the Social and Environmental Impact chapters.

2. India's Trade in Environmental Goods

2.1 India is dedicated to further the objectives set out in the preamble of the WTO allowing for "the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment."²

2.2 Globally, India has emerged as an active player in trade of EG. Today, it is a major exporter as well as a thriving market for EG. India's total exports of EG was US\$ 0.5 billion in 2001 and reached US\$ 5.2 billion in 2012.³ Despite the fact that the domestic EG industry is highly fragmented, and is populated by a large number of small players, the industry has expanded rapidly due to increased number of environmental regulations, urbanisation and industrialisation. The industry includes equipment suppliers, engineering procurement, construction contractors, consultants and service providers.⁴

2.3 Improved domestic regulations and liberalisation of EG sector at the global level has created enormous opportunities for trade in EG. India's key EG services exports include waste water management, portable water treatment, and renewable energy plant and air pollution control. (Katti, 2005). A recent study conducted by Nguyen and Kalirajan in 2013 states that India's export destination for EGs are concentrated in Asia-Pacific countries.⁵ India's EG exports are increasing both in value and volume terms over the period of time.

¹ Draft Final Report, Trade SIA on Environmental Goods Agreement, October 2015, p. 76

² Preamble to the Marrakesh Agreement establishing the World Trade Organisation, April 15, 1994

³ International Trade Centre (2014), 'Trade in Environmental Goods and Services: Opportunities and Challenges' Page 12

⁴ Katti, V. (2005), 'Environmental goods and services: issues for negotiation for India'

⁵ Van Son Nguyen and Kaliappa Kalirajan (2013), Export of Environmental Goods: India's Potential and Constraints, ASARC Working Paper

2.4 Among the Asia-Pacific countries, the United States is one of the key importing partners as it imports a substantial amount of EG from India.⁶ In 2010, India exported about “20 per cent of the EG consisting of renewable energy plant group” to the United States, (Nguyen and Kalirajan 2013). In addition, East and Southeast Asian countries such as China, Thailand, Malaysia and Australia are key importers of EG products from India. India has taken a keen interest in promoting exports of EG including environmental services through regional trade agreements. In its recently concluded trade agreements, such as India-Korea Comprehensive Economic Partnership Agreement, provisions contain liberalisation of environmental services.

2.5 Liberalisation in EGs will also help India to integrate in global and regional value chains such as solar photovoltaic. India can join global value chains of EGs if it undertakes substantial amount of liberalisation in this sector and in related services through improvements in its domestic capacity to meet with global standards of EGs, including those likely to come out of the EGA.

3. Non-Tariff Barriers

3.1 As the EGA is envisioned to be a “living agreement” that may expand its scope in environmental goods trade and address trade barriers, it is vital to include adequate flexibility for tariff reductions and reforms to NTBs for developing countries such as India in the EGA. At present, generally, India can reduce its tariffs to a floor level of 5 per cent, however given domestic constraints that still require reforms this can only be accomplished over an extended period of time. To assist India’s domestic EG industry in adapting to new tariff cuts brought on by the EGA, different categories of tariff lines could be reduced in an agreed timeframe over multiple intervals. The EGA can include extended phase-in periods of tariff reduction as a way to encourage competition and domestically address various types of anti-competitive market distortions while supporting domestic industries by giving them time to adapt.

3.2 Furthermore, while certain Indian non-infrastructure sectors, including IT and IT-enabled services, fit well with the Green Goods Initiative’s assertion that a “well-educated workforce and a strong higher education sector, particularly in sciences and engineering, can develop a capacity for export in this sector”,⁷ the need to address NTBs, especially in developed countries where there is greatest market potential for India, must have a more direct role to play in the EGA. The EGA may facilitate greater imports of EGs, technologies, and knowledge sharing that developing countries could benefit from, but the export potential for India will depend largely on NTBs being addressed. This is also important for export opportunities in lower tech environmental goods, such as component parts, by connecting India’s manufacturers to regional and global EG supply chains.

⁶ Van Son Nguyen and Kaliappa Kalirajan (2013), Export of Environmental Goods: India’s Potential and Constraints, ASARC Working Paper

⁷ Draft Final Report, Trade SIA on Environmental Goods Agreement, October 2015, p. 84

3.3 A study carried out by the Centre for WTO Studies concludes that in the 699 environmental goods that were surveyed, India had a lower frequency in the use of NTBs than developed countries like Japan, EU, US and Canada (in that order) although the latter countries have lesser duties.⁸ This shows that India is more vulnerable to tariff reductions as India does not have the “effective non-tariff protection” compared to developed countries.

3.4 It is welcomed that the Green Goods Initiative recognises the concern over NTBs and Recommendation 4 notes to dismantle NTBs in future revision and expansion of the EGA.⁹ However, a specific recommendation to effectively address and ultimately remove restrictive NTBs in developed countries related to EG trade would be important for developing countries such as India to truly find opportunities to export and grow in the EG market through the EGA. The restrictive nature of NTBs is also felt in India, however addressing these requires greater flexibility than those lingering in developed countries that currently have the capacity to eliminate their barriers.

4. Capacity Building and Technical Assistance

4.1 Technical assistance and customs capacity assistance for EG trade may certainly be required for developing countries such as India. The Green Goods Initiative recommends the WTO Trade Facilitation Agreement (WTO TFA) “should be considered to set up a dedicated capacity building/technical assistance programme funded by the EU where the developing countries governments/authorities can receive regulatory and technical support for preparing adherence to the EGA.”¹⁰ Additionally to this recommendation, there needs to be greater emphasis on capacity building and assistance mechanisms agreed to and instilled in the EGA itself.

4.2 While the WTO TFA would provide support for developing countries, the EGA would be the apex EG authority at the multilateral level and thus should include a specific focus on capacity building and assistance for EGs in order to create the greatest benefit from EG trade liberalisation for all members. Recognising the concern of creating a ‘spaghetti-bowl’ of assistance mechanisms, there should be close cooperation between the EGA and TFA without making capacity assistance dependent on the TFA alone.

5. India’s Energy Sector and Considerations on Subsidies

5.1 The energy sector in India is expanding rapidly but still about 240 million people have no access to electricity and about three-quarters of the total demand for energy is met by fossil fuels.¹¹ Rural areas and poor households tend to be particularly dependent on solid biomass, including twigs, charcoal, and firewood, to meet their energy needs. At the same time, India is committed to expanding to 175 GW of renewables by 2022.¹²

⁸ Ratna, Rajan Sudesh, Murali Kallummal, and Hari Maya Gurung, “WTO Negotiations on Market Access on Environmental Goods: Identification of Existing NTMs on Proposed Items”, Centre for WTO Studies, July 2010.

⁹ Draft Final Report, Trade SIA on Environmental Goods Agreement, October 2015, p. 18.

¹⁰ Draft Final Report, Trade SIA on Environmental Goods Agreement, October 2015, p. 19.

¹¹ India Energy Outlook 2015, p. 19, available at:

http://www.worldenergyoutlook.org/media/weowebsite/2015/IndiaEnergyOutlook_WEO2015.pdf

¹² *Ibid*

5.2 India provides a large amount of subsidies to conventional products such as oil, gas and kerosene. However, the government of India is committed to eliminating those subsidies that cause harm to the environment. Furthermore, India has undertaken a number of initiatives to promote clean energy. The National Solar Mission under the Ministry of New and Renewable Energy aims to “promote ecologically sustainable growth”. The program includes several subsidised schemes such as solar cookers, solar lanterns, water mills, solar pumps, and solar water heating system.¹³

5.3 Therefore, while India should be further encouraged to wane off polluting energy sources such as oil and coal, this should not hamper its vital development needs. Consequently, adequate time will be needed to reduce those specific subsidies. However, sufficient investment to enhance India’s green energy sector, particularly solar, wind, and hydroelectricity technologies and components, would support the international community’s goal to lower global emission levels. Further, as cheap and reliable clean energy sources are not made available to the most vulnerable sections of the population, it will be extremely difficult for a country like India to drastically reduce or eliminate subsidies on fossil fuels.

5.4 Thus, a statement of commitment in the EGA, as noted in Recommendation 8,¹⁴ should not only focus on the reduction of subsidies, but also include a plan to support developing countries to meet internationally agreed goals on the environment.

6. Future Trade SIAs and Developing Country Considerations

6.1 Finally, in future Trade SIAs, especially those on plurilateral and regional trade agreements, the assessment should expand its economic modelling and social and environmental inquiries to include specific focuses on individual third party countries, such as India. As India was indeed taken in many examples in the Green Goods Initiative, it has proven to be an important case that should garner further analysis on economic, social, and environmental impacts of trade agreements.

¹³ Summary of Incentives and Subsidies for Renewable Energy Products by MNRE, , available at: <http://greencleanguide.com/summary-of-incentives-and-subsidies-for-renewable-energy-products-by-mnre/>

¹⁴ Draft Final Report, Trade SIA on Environmental Goods Agreement, October 2015, p. 19