



Task Force 04

TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH

Environmental Impact Assessments of Trade Agreements Towards a Systematic and Comprehensive Application

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Abstract

Environmental impact assessments (EIAs) of trade agreements are a key instrument to align trade practices with the Sustainable Development Goals (SDG 13, 14, 15, 17). Whereas some members of the G20 have increasingly applied EIAs since the 1990s, there is limited empirical data on the politics of these impact assessments. Our exhaustive survey on the EIAs of trade agreements delves into the design of these assessments, focusing on the role of actors, agencies, and EIAs agendas globally. The criteria and methodologies used in EIAs are critically examined, drawing comparisons between so-called developed and emerging economies. Our analysis reveals a significant gap between current practices and recommended standards for EIAs developed by the UN Environment Programme and the International Institute for Sustainable Development. EIAs are not systematically conducted; their indicators are not standardized; and it remains unclear how their insights are taken into account for the design of trade agreements. To enhance the effectiveness of EIAs, we propose five key institutional and methodological recommendations: a) applying EIAs to all the trade agreements of OECD countries and major economies, starting with G20 nations, where technical capacity is not a severe impediment; b) boosting the role of regional bodies, such as ASEAN, the African Union or Mercosur, to support EIAs for integration treaties and steer member states needing more capacity; c) extend assessments from ex-ante to complementary ex-post analyses, validating expectations based on model calibrations; d) evaluate the environmental impact on all parties involved, including third countries, and strengthen the involvement of civil society while ensuring public accessibility of EIAs for increased transparency, and e) establish a common framework for indicators and economic levels in EIAs, promoting consistency and comparability. Focusing on the role of G20 nations in trade, our recommendations emphasize the need for leadership by the G20 in adopting systematic, standardized, comprehensive, and transparent EIAs of trade agreements to foster global environmental sustainability.

Keywords: Environmental impact assessments, trade agreements



Diagnosis: Environmental Impact Assessment of Trade Agreements in Practice

While environmental impact assessments (EIAs) are increasingly applied in the context of trade agreements, a critical analysis of their institutional design is still in its early stages. How EIAs of trade agreements are organized, how environmental impact is conceptualized, which indicators are used, who are the actors involved and which agreements are assessed, is not understood in a structured and methodological manner. From our analysis, we find that most environmental impact assessments of trade agreements are only done *ex-ante* by a small subset of countries, using a relatively small set of criteria that cover only partially the potential impact (in terms of pollution, natural resources, and trade related emissions).

We systematically gathered data on preferential trade agreements that have been officially notified to the World Trade Organization (WTO). This information includes details on treaties for which an EIA was conducted, the stage in the treaty's decision-making process during which the EIA took place, the extent of the EIA's scope, and the methodology employed in the assessment. We also assessed the role of actors, agencies, and EIA agendas at the international, regional, and national levels. With this information, we constructed a novel dataset, i.e., the dataset on the environmental impact assessment of trade agreements (hereafter, DEIATA) that encompasses information on 124 publicly available EIAs for trade agreements (see Bui et al. 2024).

Using the recommendations from the United Nations Environmental Programme (UNEP) and the International Institute for Sustainable Development (IISD) in 2017 as benchmarks (see IISD and UNEP, 2017), we critically analyze the EIAs by focusing on the following key aspects: the timing of the assessment (*ex-ante* and/or *ex post*), the geographical scope (the domestic scope in one or more partners and/or the impact on third

countries), the thematical scope (broad and comprehensive in terms of sustainability or narrowed down to the environmental impact), the actors involved and the nature of the assessor (independent analyst or government agency).

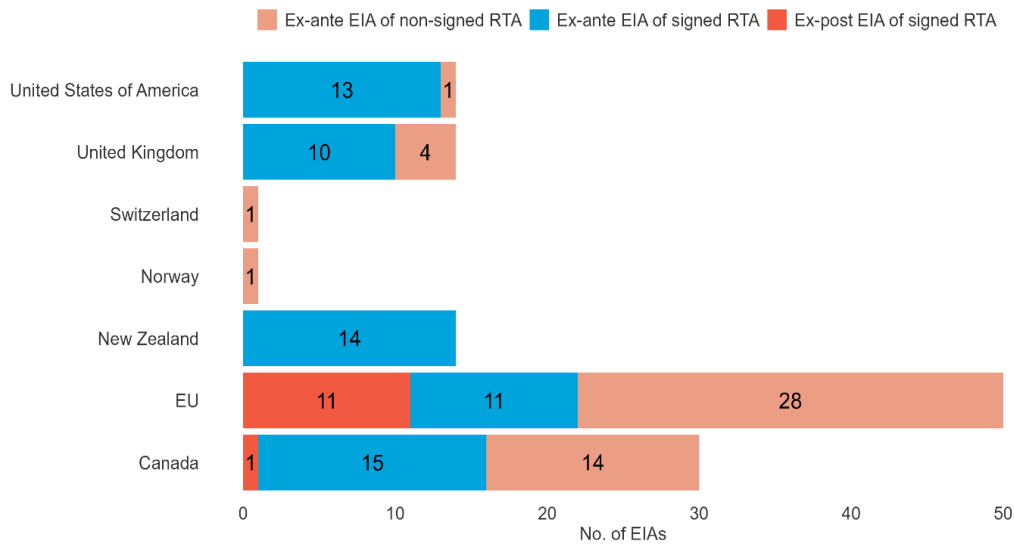


FIGURE 1. Number of EIAs covered by regional trade agreements (RTA).

Source: Bui et al. (2024)

We find that the extent of environmental impact assessments largely depends on the involved actors. Nation states are the primary actors, except for the EU (see Figure 1). Only a few OECD countries, including the US, Canada, the UK, and New Zealand, have legislation mandating environmental examination of trade agreements. Institutional designs vary significantly, with the EU standing out for systematically reviewing environmental impacts for both trading parties involved. Japan, Korea, Norway, and Switzerland conducted several environmental impact analyses of trade agreements, but they are not systematically applied and not always publicly available.

As shown in Figure 2, currently most RTAs are not covered by an EIA. For instance, many developed and most emerging countries have not fully implemented comprehensive EIAs of trade agreements. Some governments have undertaken assessments, particularly when negotiating with the United States, Canada, or the European Union. Regional institutions actively involved in EIAs are mainly the economic committees of Africa and Latin America of the United Nations. As regards international organisations, a mainly methodological role in the development of the EIA framework is assumed by the OECD and UNEP, though the latter also contributes to capacity building in EIA implementation and provides support in assessing the environmental impact of trade initiatives for countries that are short of capacity.

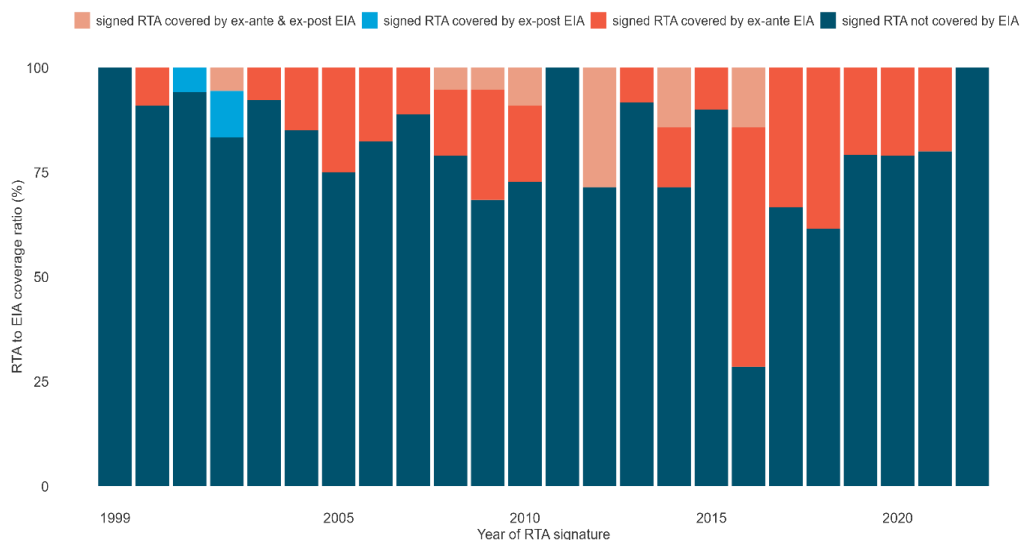


FIGURE 2. Percentage of signed RTAs covered by EIAs over time since 1999 - all countries. Source: Bui et al. (2024)

The institutional design of the assessments varies significantly. In most cases, EIAs are conducted exclusively *ex ante* and focus on the domestic impact. The EU systematically reviews the environmental impact for all (both) parties involved, however, disregarding the impact on third countries. *Ex post* assessments are much less frequent.

Regarding the scope of EIAs, New Zealand and the EU include the social and economic dimensions of sustainability in their assessments. In contrast, the other actors consider only the environmental impact. In addition, the definition of the latter, i.e., the aspects of environmental sustainability that are considered, can vary substantially between actors and agreements.

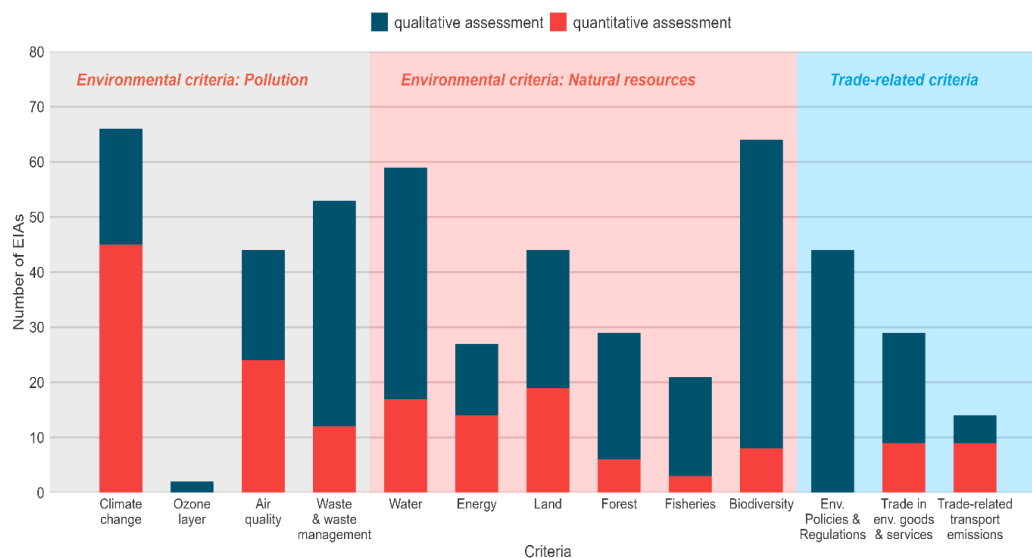


FIGURE 3. Number of EIAs by issue area.

Source: Bui et al. (2024)

Figure 3 shows the distribution of the criteria included in the EIAs according to three clusters, presenting a base frame for creating a standard of practice for EIA in trade agreements (in which the indicators towards each subcategory can vary - coastal, forest, water, soil- where the commodity in discussion leans). On average, *4-5 of these criteria form the EIA's backbone*. Some aspects receive relatively little attention, for instance, *only a small fraction (10%) of EIAs discussed trade-related transport emissions, and less than 20% of EIAs handled trade in environmental goods and services*. The European Union and the United Kingdom have seemingly the most extensive coverage in terms of

criteria, with broader indicators used. According to the information available, only the EU engages independent consultants for the EIA of trade agreements; all other actors use available resources within the government administration.

Overall, the effectiveness of EIAs i.e., their impact on and interaction with actual trade negotiations, seems limited. The process of how the results of EIAs are taken into account in trade negotiation is often unclear. Recommendations in function of

sustainability tend to be overlooked or can be modified during the negotiation process. As different agencies are involved in the trade negotiations and sustainability assessment, policy coordination may constitute an additional issue. NGOs point in addition to timing problems, as final EIA reports tend to be published at a late stage in the negotiations, to limited civil society involvement in the decision-making process and the lack of enforceability.

Recommendations: How to Improve the Assessment of the Environmental Impact of Trade Agreements and its Effectiveness?

In view of the predominant use of ex-ante assessments focusing on domestic impacts, several improvements in the EIAs can be made, as regards the appropriate governance level for the EIA, the actor who should conduct it and the stakeholders involved.

First, the implementation of EIAs at the national and regional level¹ should be generalized to at least the trade agreements of all the OECD countries and major economies, in particular the G20 nations, where technical capacity is not a serious impediment. The G20 has a initiating and coordinating role to play as one of the major fora of global governance where developed and emerging economies meet. The G20 member countries represent about 80% of world GDP and carbon emissions and participate in most current existing or negotiated trade agreements.

Second, the role of regional bodies such as ASEAN, the African Union or Mercosur should be increased, to support and encourage the implementation of EIAs for integration treaties at the national and regional level and steer member states needing more capacity. Such assessments might be coordinated and supervised jointly by a group of international bodies such as UNEP, OECD, UNCTAD, and other international bodies invited to participate as observers. In addition, international organizations also need a clear division of roles to avoid current overlap. For example, UNEP should expand its programs to help build capacity in developing countries to undertake EIAs of this nature. Expanding such

¹ In Paragraph 33 of the Doha Ministerial Declaration Ministers “encourage that expertise and experience be shared with Members wishing to perform environmental reviews at the national level” (https://www.wto.org/english/tratop_e/envir_e/reviews_e.htm)



assistance may be particularly beneficial for smaller developing countries' capacity to support their negotiators with detailed assessments of the impacts of other countries' proposals or even their proposals. The OECD could focus on developing a standard process, standardizing methods and indicators, and reviewing the effectiveness of EIAs regularly. Also, the Committee on Trade and Environment of the WTO may oversee the overall coordination and delivering the results.

Third, the environmental impact of trade agreements on all parties involved should be evaluated, including third countries, and the involvement of civil society should be strengthened while ensuring public accessibility of EIAs for increased transparency. A multi-country EIA study might significantly contribute more if undertaken on behalf of the wider international community rather than being commissioned by one of the main negotiating parties. Assessments within each region or nation, carried out by the public authorities or consulting firms and then combined into a joint report, can lead to an enhanced commitment to execute mitigation measures. Within the framework of trade value chains, the process of EIAs is often intertwined with conflicts of interest. Yet, it is important to acknowledge the varying capacities of nations in conducting comprehensive EIAs and implementing environmental safeguards. As such, we recommend establishing a capacity-building program to provide technical assistance, training, and financial support to countries requiring aid in strengthening their EIA frameworks and enforcement mechanisms.

Fourth, assessments should be extended from mainly ex-ante to include complementary ex-post analyses. Ex-post EIAs—often conducted years after their ex-ante counterparts—tend to offer a more expansive and quantitative criterion coverage. Moreover, ex-post EIAs also strive to identify causal links. Therefore, they are not only an essential tool to verify the match between expectations (based on model calibrations)

and outcomes of a trade agreement in terms of environmental impact but also a highly valuable source to improve the understanding of the environmental impact of international trade agreements and hence economic policy design.

Fifth, a common framework for indicators and economic levels in EIAs should be established, promoting consistency and comparability. Data and information-based toolsets (like the DEIATA dataset) highlight using diverse processes and methodologies in EIAs. Some assessments were conducted without a clearly defined indicator scheme; others follow assessment criteria rather sporadically (except for environmental policies and regulations, i.e., compliance to environmental norms by the trading partner), yet a reasonably detailed scheme of criteria is adopted as well. Pollution issues seem systematically covered, particularly in the EU EIAs, whereas natural resources and assets show a more mixed pattern. This diversity results in considerable differences among individual reports. When formulating an appropriate assessment strategy, it is essential to consider many factors. These factors encompass national and regional priorities, the distinct challenges associated with a particular context, and the overall scope of the agreements under examination.

We also call to commit to making EIA reports and related documents publicly accessible. This should include provisions for meaningful public participation in the EIA process, ensuring that the views of affected communities, civil society organizations, and other stakeholders are considered in trade negotiations and project implementations.



Outcomes and the Role of the G-20

The interplay between economic growth and environmental protection presents a significant challenge, particularly in emerging economies where rapid development is often prioritized over environmental standards. The tension between these two objectives is exacerbated by the need for confidentiality in trade negotiations, which can conflict with the push for transparency and public involvement in environmental impact assessments. To navigate these complexities, a multistakeholder approach is advocated. This strategy could involve engaging various parties, including non-governmental organizations (NGOs), political factions, and other interest groups, in the decision-making process. Such an approach can help balance diverse interests and maintain impartialities, which are instrumental in this balancing act as they can enhance government transparency and policymaking by involving a broader range of participants. When effectively utilized, the findings from EIAs have the potential to shape trade agreements and contribute to global environmental sustainability efforts. The key lies in finding an equilibrium that accommodates both the need for economic advancement of emerging countries and the imperative of environmental conservation.

In the above context, G20 countries are working towards integrating environmental considerations, including EIAs, into their trade and investment agreements to ensure that economic activities contribute to the sustainable development agenda via various initiatives and policies. For instance, the Bali Declaration by the G20 leaders of 16 November 2022 supports integrating sustainable and environmentally friendly practices in the member nations' economic policies. The declaration emphasizes the need for sustainable development and the importance of addressing environmental challenges through international and region cooperation and advocates adopting sustainability

focused approaches for economic practices. Furthermore, the G20 Chair's Summary from the Trade, Investment, and Industry Ministers Meeting in Bali underscored the commitment to a rules-based, non-discriminatory, and sustainable multilateral trading system aligned with the principles of integrating environmental considerations into trade agreements, to ensure that economic growth does not come at the expense of environmental degradation.

In this context, integrating comprehensive EIAs into trade agreements emerges as a pivotal strategy. This approach aligns with the SDGs, particularly SDG 13 (Climate Action), SDG 14 (Life Below Water), and SDG 15 (Life on Land), by facilitating monitoring and reduction in the environmental footprint of trade activities and showing its distribution between the partners in the agreement as well as third countries. Such integration not only promotes climate goals and biodiversity conservation but also underscores the necessity to streamline the process and set a precedent for the global adoption of the best EIA practices through the establishment of standardized practices and possibly a joint task force across G20 nations. Less than a quarter of G20 nations employ standardized EIAs, and fewer than half maintain publicly accessible records of such assessments. Therefore, adopting standardized EIAs could catalyse stronger partnerships among countries (SDG 17), enhancing transparency and accountability in trade practices.

The G20, as a multilateral platform, is uniquely positioned to foster a global movement towards sustainable trade, potentially counteracting environmentally unsustainable practices in certain regions. The systematic incorporation of EIAs into trade agreements offers a promising avenue toward achieving concurrent environmental sustainability and economic development. Although this approach presents a landscape of potential contradictions and trade-offs, strategic, collective efforts can effectively navigate these



challenges. The G20's role in promoting and adopting such practices could catalyse global action, underscoring the importance of collaborative endeavours in realizing sustainable trade and sustainability objectives.



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