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■ POSITION PAPER

Studies on the impact of  
trade agreements on  
sustainable development:  
how much do they take  
development issues into  
account?

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Sustainability Impact Assessments (SIAs) – studies of the impact that trade agreements have on sustainable development – were designed by the European Union as a tool to help negotiators (responsible for promoting a “more sustainable” trade policy) in making decisions. SIAs are based on an integrated approach, aimed at identifying all the economic, environmental and social impacts of trade negotiations. This approach is supposed to be applied to the entire SIA process, from the preliminary assessment to monitoring to *ex post* control. Since the launching of SIAs in 1999, the methodology has been revised, notably to include analyses of the chain of cause and effect and to improve the consultation process.

More than five years after they were launched, the verdict on them appears mixed. Aside from possible technical and methodological difficulties, questions might be asked about the real purpose of the SIAs, which have been conducted for several bi- and multilateral agreements: to what extent do they in fact lead to a readjustment of the negotiators’ positions, moving them closer to the goals of sustainable development?

## 1. METHODOLOGICAL QUESTIONS

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### 1.1. Promoting complementarity between a macro-economic and micro-economic approach

When evaluating impacts, the choice of indicators is decisive. Given the wide range of sustainable development indicators that exist in the literature, there has been much criticism of the very general nature of the indicators chosen in the methodology for SIAs, which uses nine basic indicators (real income, fixed capital formation, employment, poverty, health and education, equity, biological diversity, environmental quality and natural resource stocks). In response to these criticisms, the European Commission, in its *Handbook for Sustainability Impact Assessment*, emphasises that these indicators are intended more for identifying sensitive issues than quantifying impact. This response is justified by the difficulty in obtaining accurate, reliable data covering the period corresponding to the indicators. The consultants are nevertheless free to use more precise indicators when making a detailed assessment of impact, depending on the regions/countries and/or sectors being studied. For example, in the case of the SIA on the Euro-Mediterranean free-trade area, the consultants opted for assessing the impacts of the free-trade agreement in terms of the Millennium Development Goals and the Mediterranean Sustainable Development Strategy, which identify 18 and 34 targets/indicators respectively.

The question of which indicators to choose is closely bound up with the macro-economic approach to assessment favoured by the European Commission, and to budgetary constraints. The majority of SIAs are conducted for groups of countries – an approach that makes it impossible to measure effects on vulnerable areas or population groups within countries. In development terms, an impact that is quantitatively small will often have a greater effect on a vulnerable group than a bigger impact has on less vulnerable players. A micro-economic approach would make it possible to refine the assessment of impacts. To produce significant results, such an approach must be accompanied by field surveys. These are necessary for

collecting data and reporting on more local impacts, and for appraising for example the capacity of the different social groups (farmers, women, etc.) to adapt to the structural changes, and the strategies these groups have developed. Additional financial resources therefore need to be made available for this purpose. The principle of field surveys must be recognised and must be included in the schedule for the negotiations. Some negotiators, however, are reluctant to adopt this type of approach, preferring quantitative analysis methods, in particular economic modelling. This position contrasts with the observations in the *Handbook*, where the indicators are regarded as a means of identifying sensitive issues and where the problem of accessing reliable data is underlined.

### **Recommendations**

- Ensure complementarity between the macro-economic and micro-economic approaches: this means seeking at the same time both refinement of analysis and the necessary degree of aggregation, so as to be better able to assess impacts within countries, on the different social groups.
- Attach greater importance to a qualitative approach (field surveys) than to modelling.
- Release more funds for conducting field surveys and local consultations.

## **1.2. Promoting dialogue with developing countries**

To appreciate the degree to which human and social development issues are being taken into account, it is also necessary to measure the degree of participation by developing countries – negotiators, civil society and experts from the European Union’s partner countries – in carrying out the impact studies. In the first few years, the European Commission prioritised consultation with European players. For financial, institutional and cultural reasons, the position allocated to stakeholders from third countries has changed greatly since the SIAs were launched. There are several good reasons for involving the stakeholders in the process: making them more aware of the issues at stake in the regional trade negotiations and impact studies, improving the transparency and credibility of the process, broadening the range of expertise available for identifying the impacts, and diversifying information sources.

### **The negotiators**

Through the participation of negotiators in the discussions on methodology, the choice of scenarios and on the conclusions, we are creating the conditions in which the negotiators will accept the SIAs. Negotiators from the developing countries actually feel ambivalent about the SIAs, as regards both their form and their content. To those who would like a trade agreement to be signed as quickly as possible, the SIAs can seem like a brake, dragging out the negotiating deadlines. This position can vary depending on the particular developing countries and the issues at stake (in particular, the degree of openness of the European market). By delivering information on sensitive sectors and/or regions, SIAs are also proving to be a means for the negotiators from developing countries to strengthen their position. These diverging views highlight the lack of ownership of the process by the negotiators from the developing countries and, therefore, the need for their increased participation in the process. Furthermore, views of these negotiators about which indicators to use, the scope of the studies and choice of scenario can only enrich the process. So a good balance must be struck between

close cooperation, which is likely to encourage the trading partners to “own” the tool, and keeping information about the EU’s negotiating strategy confidential.

### **Recommendation**

Involve negotiators from the developing countries upstream of the SIA process, at the stage when the studies are being planned and defined.

### **Civil society organisations**

Involving civil society organisations from third countries in the dialogue on the SIAs is particularly useful when it comes to identifying sustainable development issues or specifying groups of relevant countries. Besides participating in workshops, they can also be involved by conducting field surveys. As the representatives of concerned groups (farmers, women, young people, etc.), civil society organisations appear legitimate in this area.

While there may be a desire to see the stakeholders from third countries participate, not all the factors required for ensuring the quality and effectiveness of this process are necessarily in place. These factors depend in particular on how participation in the SIA process is structured, the players’ technical knowledge, and the financial resources allocated to the consultation. For the consultation is demanding, in terms of time and financial resources, both for the European Commission and consultants and for those being consulted. In view of the external expertise necessary, and the need for the players from third countries to participate effectively, the budget allocated to the SIAs is inadequate. Often the consultants do not have the resources necessary to meet the Commission’s requirements in terms of organising consultations (seminars and surveys).

### **Recommendations**

- Support the involvement of civil society organisations in the conduct of field surveys, the collection of local data and reports from relevant people, the drafting of recommendations and adjustment measures, and consultation on the outcome of the studies.
- Allocate increased resources to the organisation of local consultations.

### **The experts: collaboration on research**

As the SIAs are so complex, depending on the needs of each study, partnerships could be established with consultants or researchers from third countries, chosen for their local expertise and their knowledge of the situation on the ground. The research could be shared between the consultants appointed by the Commission and research bodies from third countries, with mechanisms to facilitate coordination between the different levels. While involving local research bodies can pose problems in terms of timetabling and cost, experience has shown that it is extremely useful for building the capacity of these bodies (cf. integrated impact studies carried out by the UNEP).

### **Recommendations**

Promote research partnerships between the consultants appointed by the Commission and local research organisations.

Support a high, sustainable level of expertise.

## **1.3. Working together with institutions responsible for development issues**

### **International organisations**

Some international organisations have developed programmes of impact studies or require them to be carried out ahead of projects. This is the case with the World Bank, for example, which has included procedures for social and environmental impact studies since the start of the 1990s. Together with the International Monetary Fund, it has also developed a guide to the social and poverty-related impacts of the reforms to be introduced under the Poverty Reduction Strategic Papers, for use as an *a priori* analytical tool. The aim of these analyses is to assess (in economic, social and environmental terms) the redistributive effects that official policies to reduce poverty and inequality are having on the well-being of the different population groups, with special emphasis on the poor and the vulnerable.

The value of the international development organisations' experience with impact studies could be recognised in the context of SIAs of trade agreements. Collaboration on assessment methodology and an understanding of local mechanisms or social and human development indicators could be beneficial to the SIA process. The forming of an international committee of experts, composed notably of representatives of these international organisations – as proposed in the European Commission's *Handbook* – should be supported.

### **Recommendations**

- Recognise the value of the international development organisations' experience in the sphere of impact studies.
- Put collaboration with these organisations on an institutional footing by setting up an expert committee to monitor the SIAs.

### **The EU institutions**

The SIAs are being piloted mainly by the Directorate-General for Trade. Involvement by the other Directorates-General (in particular DG Development), and Member States, remains relatively weak. The European Parliament, for its part, is not associated with this process.

It is vital for all the European institutions to be involved in the SIAs: in drawing up their terms of reference and conducting the assessments, and also in implementing the results of the studies (flanking measures). Especially where development issues are concerned, the

Directorate-General for Development, the Parliament's Development Committee and the General Affairs and External Relations Council should be involved. Improved consistency should be promoted in the methodological and political choices affecting SIAs, and conflicts of interest between different sensitivities should be avoided, as they could be detrimental to the work of the consultants.

### **Recommendation**

Involve the European institutions more in the SIA process, in particular their development committees.

## **2. POLITICAL CHOICES**

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### **2.1. Reaffirming the legitimacy of SIAs as a tool for decision-making in negotiations**

#### **Incorporating SIAs into the negotiating process**

One of the main criticisms of SIAs is that negotiations take little account of their results. Two major factors appear to be causing this situation: timetabling constraints on the one hand, and lack of political will on the other.

Most SIAs are conducted after negotiations have taken place. Yet if their aim is to help reorient the negotiations, it is essential that SIAs are conducted sufficiently in advance of the process. The crucial point, then, is to launch the SIA as soon as possible, before the negotiating mandate has been fully decided on. This, however, will entail revising the methodology in order to adjust the SIA process to the negotiating one – in other words, to be able to modify hypotheses and change unfolding scenarios during the course of the negotiations, thereby meeting the negotiators' needs more fully. Contrary to what is stated in the European Commission's *Handbook*, the results of an SIA must be taken on board before or during negotiations (and not after).

The fact that little account is taken of SIAs also has to do with the political value attached to these studies. The Commission is currently producing a position paper giving guidelines for taking on board the recommendations from the SIAs when negotiating trade agreements. A more constrictive legal framework (obligation to publish the position paper before the completion of the negotiations, compulsory revision of the negotiating mandate) would help ensure the SIAs were taken into account more in the drafting of trade agreements.

### **Recommendations**

- Work out a more flexible framework for the methodology, to allow hypotheses to be modified and, thus, to enable scenarios to evolve during the course of negotiations.

- Adapt the SIA timetables and procedures to those of the negotiations, so that the outcome of the assessments can be taken on board in the negotiating mandate, before an agreement is signed.

### **In recommendations, prioritise trade measures over flanking measures**

The final assessment is supposed to include two types of recommendation: the first on trade measures, in particular negotiating positions (market access, foreign direct investment, facilitation of trade, standards, etc.), and the second on complementary (or flanking) measures, to reduce the negative impacts on sustainable development and maximise the positive ones. This latter type of flanking measure may go beyond the sphere of trade to deal with domestic policies and measures, capacity-building, or international and regional regulations.

In practice, the results of the assessments appear to stress flanking measures more than trade measures. Trade liberalisation is taken for granted. It does not seem possible to call a trade agreement into question, even where negative impacts have been identified in an SIA. Ultimately, consultants are given little flexibility when it comes to the recommendations on the suitability and nature of the trade measures. Furthermore, these flanking measures are drawn up with no prior assessment of the third countries' governments' technical or institutional capacity to implement them (ability to implement social, environmental, etc. legislation).

Reducing the scope of the recommendations in this way thus amounts to shifting the responsibility of the European negotiators onto the cooperation policies – and, above all, the governments – of third countries, who then have to carry the cost of the adjustments to ensure that a trade agreement has no negative effect on sustainable development. This is no longer helping to reorient the negotiations: the SIAs look more like a new instrument for designing technical assistance programmes to boost trade.

### **Recommendations**

- Attach greater importance to the recommendations on trade measures, in order to readjust negotiating positions if necessary.
- Reaffirm the responsibility of the negotiators in drawing up trade agreements that respect sustainable development issues.
- Assess third countries' technical and institutional capacity to implement the flanking measures.

## 2.2. Build references to development into trade policies

At the same time as providing a new political space between trade negotiations and development policies, the SIAs also create a set of references (benchmarks) for a series of key issues related to the three aspects of sustainable development in the target areas (fragile sectors, regions and social groups, etc.). SIAs are a favoured information and decision-making tool for developing countries, as they can enable them to identify the benefits and costs of their participation in trade agreements.

More specifically, SIAs identify potential problems or risks that need to be taken into account during negotiations. Similarly, some issues, whether directly or indirectly linked to trade – such as market access, the use of domestic measures (incentives, support for micro-enterprises, etc.) or the financing of adjustment costs – are particularly important for the developing countries.

In addition to an analysis of problems and solutions relating to people's economic needs, SIAs should cover the impact of the trade agreements on respect for people's rights as laid down in the international conventions (lack of power, social exclusion, lack of protection, participation and access to/control over resources) and should put forward recommendations on the State's legal obligations and the involvement of communities, to ensure that their rights are respected and protected.

Negotiations on trade liberalisation should be readjusted to take account of the problems and priorities identified in this way, and in collaboration with the negotiators from the developing countries. The SIAs would thus effectively achieve their initial goal, which is to assist the political decision-makers in conducting the negotiations.

Finally, these benchmarks, accompanied in some cases by indicators, should be used during the *ex post* monitoring of the implementation of the trade agreements.

### Recommendations

- Reaffirm the need to reorient trade liberalisation negotiations on the basis of the risks identified in the SIA and the political priorities declared by the developing countries, at the economic level and in terms of the law.
- Incorporate these benchmarks into the *ex post* monitoring of the implementation of the trade agreements.

## 3. Conclusion

Since being launched in 1999, sustainability impact assessments of trade agreements have laid the foundations for a dialogue between the different stakeholders on the issues involved in the trade negotiations and in sustainable development, and raised awareness among the main players concerned in third countries. Sustainability Impact Assessments are currently being conducted for the economic partnership agreements between the European Union and the African, Caribbean and Pacific countries, the Euro-Mediterranean free-trade area, and World Trade Organization's agreements. An impact study of the negotiations between the European Union and the Mercosur countries is due to be launched shortly.

Given the potential usefulness of SIAs in terms of awareness-raising, dialogue and improving trade policies, this tool must be improved from the point of view of methodology and its political purposes, and greater resources must be allocated to it. The recommendations put forward in this memo are structured around the concepts of balance, complementarity and consistency. There is a need to seek complementarity between the macro-economic and micro-economic approaches, to promote balance between trade measures and flanking measures, and to encourage stakeholders from third countries to be duly involved in the process, together with the relevant international organisations and EU institutions. Lastly, there must be consistency between the initial goals of the SIAs and the policy choices made.

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- Economic partnership agreements between the European Union and the African, Caribbean and Pacific countries
- Trade agreement between the European Union and the Arab Gulf Cooperation Council countries