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## Promoting open trade in environmental goods - can trade agreements help?

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### Promoting open trade in environmental goods - can trade agreements help?

Trade in environmental goods (EGs) is substantial and growing, creating new opportunities for APEC economies to expand exports and meet emissions reduction targets. However, trade is impacted by non-tariff measures 'beyond the border'. Promoting trade requires promoting more open regulatory frameworks along the value chain. Developments in recent trade agreements can inform greater consensus and facilitate forward thinking on how to achieve this. APEC is well positioned to lead as a global pathfinder.



## Promoting trade in environmental goods

Trade in environmental goods (EGs) is substantial. Annual global trade in the 54 EGs on the 2012 APEC Environmental Goods List ([EGL](#)) amounted to more than USD 500 billion in 2019, with more than half of this trade taking place in the APEC region.<sup>1</sup>

The imperative of emissions reduction, associated government regulation and technological innovation are driving the development of new environmental products, industries and technology.

APEC has recognised that the Asia Pacific region will play a [major role](#) as an investor and trader in this growing global market as the world moves toward carbon neutrality. APEC Ministers Responsible for Trade ([MRT](#)) have pledged to support APEC efforts to discuss the impact of non-tariff measures on trade in EGs. [Australia](#) has advocated reducing barriers to trade in EGs as part of efforts to mitigate climate change.

## Regulation of environmental goods to promote open trade

Applied tariffs on new EGs among APEC economies are generally modest, at around 5% on average. However, non-tariff, or regulatory 'beyond the border' measures, impact significantly on trade in these goods. They [include](#) technical requirements, quality conditions and proofs, customs formalities and valuation practices, as well as restrictions on labour mobility.

Reducing barriers to trade from these measures would have a direct and compounding positive impact on the competitiveness of EGs in the APEC region. Costs would be lowered along the value chain, helping to incentivise integrated production and manufacturing – not just in final products but also in raw material supply, intermediate component manufacturing, product assembly and waste recycling.

Identifying, and then addressing beyond the border barriers, however, raises several challenges.

First, emerging EGs involve new industries for which specific regulation is still evolving (e.g. regulation of hydrogen compressors is not distinct from regulation of other gas compressors). Most are therefore captured by broader regulations impacting on a wide range of products that do not distinguish EGs from 'normal' goods.

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<sup>1</sup> Based on trade flows in 6-digit HS codes applicable to 54 environmental goods included on the APEC Environmental Goods List.



Second, many EGs are not only final goods but also critical inputs into value chains. Regulation along the supply chain for inputs impacts the trade of the final goods. For example, the electronic vehicle value chain encompasses regulation of source minerals, cells, batteries and vehicle manufacturing.

Third, new EGs are closely linked with services, in terms of their delivery (e.g. transport, distribution and storage), functionality (e.g. access to electricity grids and infrastructure) and viability (e.g. market rules in gas and electricity markets). They are also impacted by regulations on foreign investment (e.g. joint-venture and local content requirements).

All of the above suggest an innovative whole of value chain approach is needed to support more open regulatory frameworks for trade in EGs.

### Emerging approaches in trade agreements – can they help?

#### Existing trade frameworks

Elements of recent free trade agreements (FTAs) offer scope to address EGs and regulatory controls on trade.

Some agreements involving APEC economies include specific rules and disciplines on EGs (aside from tariff commitments). For example, provisions exist in the [CPTPP](#), the [USMCA](#) and Vietnam's bilateral FTA with the EU (EVFTA) to 'facilitate' and 'promote' trade and investment in EGs. The EVFTA goes further. It includes a [provision](#) that is focused on non-tariff barriers that affect trade and investment related to the generation of energy from renewable and sustainable sources.

FTAs also adopt approaches to address regulatory measures that impact on trade in particular sectors or products. The CPTPP, for example, includes disciplines to address technical regulations for cosmetic products and medical devices, among others. Most agreements also include broader transparency and notification obligations for import licensing and export control measures. These measures can support closer regulatory alignment among economies, promote consistency in standards and improve transparency and predictability in regulatory compliance. Similar measures could be adopted for environmental goods.

Cooperation arrangements sit alongside or are increasingly integrated into these agreements. They can establish institutional mechanisms and agendas to address technical barriers and build regulatory cooperation on trade. For example, both CPTPP and USMCA establish mechanisms to address potential barriers to trade in EGs. The [RCEP](#) provides for technical consultations on non-tariff measures (NTMs).



Most agreements also commit the parties to work together and in international fora to build regulatory cooperation on environmental challenges.

### **Emerging trade frameworks**

Alongside FTAs, new trade agreements are now being negotiated that create broader frameworks for regulation of trade in new and emerging areas. These agreements provide more scope to link disciplines on goods with regulation of services (and investment) than a traditional FTA, thus supporting a whole of value chain approach to regulation.

They can also serve to build convergence on common principles, rules and practices in complex and emerging regulatory areas - serving as 'pathfinders' or 'building blocks' toward new rules and approaches. A key element is that they are built on 'open plurilateralism' – meaning the participation of additional economies is welcomed.

Examples of such agreements have emerged to promote digital trade, such as the Digital Economy Partnership Agreement ([DEPA](#)) between Singapore, Chile and New Zealand, and also the Australia/Singapore Digital Economy Agreement ([DEA](#)).

The DEPA covers a broad range of topics ('modules'), which together form a broad framework covering economic activity. It has mostly facilitative provisions, rather than binding rules. The focus is developing non-prescriptive principles to guide policy and regulatory frameworks for more open trade. Some FTA 'rules' are incorporated and expanded. These elements sit alongside commitments for future work and consultation, particularly in new areas that are yet to be fully considered by governments.

Although not directly related to EGs, the DEPA is illustrative of an alternative approach to trade regulation of complex and emerging regulatory area; that spans a wide range of economic activity and technology; and that involves competing issues for governments to balance.

Another potential example is the Australia/Singapore Green Economy Agreement (GEA). Recently announced, and yet to be negotiated, this [agreement](#) will 'look at practical initiatives to promote and facilitate trade and investment, including lowering the regulatory burden on businesses. It aims to remove non-tariff barriers to trade in EGs and to accelerate the uptake of low emissions green technology'. The agreement is also [intended](#) to serve as a pathfinder that contributes to multilateral and regional policy development, standards and initiatives.



New Zealand, with several other economies, is also negotiating an Agreement on Climate Change, Trade and Sustainability ([ACCTS](#)) that will consider, among other things, the removal of barriers to environmental goods and new commitments for environmental services.

### Where to next? Pathfinders for the future

Can elements in these agreements be adapted or applied to address NTMs and promote trade in EGs?

Trade agreements don't provide all the answers. No particular model or set of provisions can tackle all the challenges involved. Nor may they be the desirable policy instrument to do so. They can, however, help develop greater consensus and promote forward thinking on regulatory approaches to promote trade in EGs. Recent agreements demonstrate some innovation in disciplines to reduce barriers, facilitate open trade, and encourage best practice regulation in complex and emerging areas.

Cooperation among both regulators and industry is an important element alongside rules and practices. It supports activity in desired areas, builds capacity and facilitates information exchange (e.g. on standards recognition, technology adoption, regulatory reform).

APEC has an opportunity to lead in this area, building on its long history of cooperation and dialogue. Further work examining NTMs and their impact across EG supply chains is warranted. Greater consensus on action to address them is welcome to: drive recovery post pandemic; help mitigate climate change; and demonstrate to the world the value of open trade in sustainable economic growth.

*This brief is based on a [presentation](#) delivered to the APEC Workshop: 'Policy Discussions on Trade-Related Policies to Promote Trade in Environmental Products and Technologies Including Regulatory Issues, Contributing to Global Carbon Neutrality' in September 2021.*