Sustainability Impact Assessments (SIA) in support of FTA negotiations between the EU and New Zealand and the EU and Australia

(TRADE2018/C02/C07)

Presentation of draft final reports

Civil Society Dialogue Meeting

Brussels, 17 December 2019

bkp ECONOMIC ADVISORS

Structure of presentation

1. **Consultations summary**

2. Global analysis: main findings and recommendations

   a. **Economic analysis** (incl. SMEs)
   b. **Social analysis** (incl. consumers, women)
   c. **Human rights analysis**
   d. **Environmental analysis**

3. **Sector analysis and case studies**: main findings and recommendations

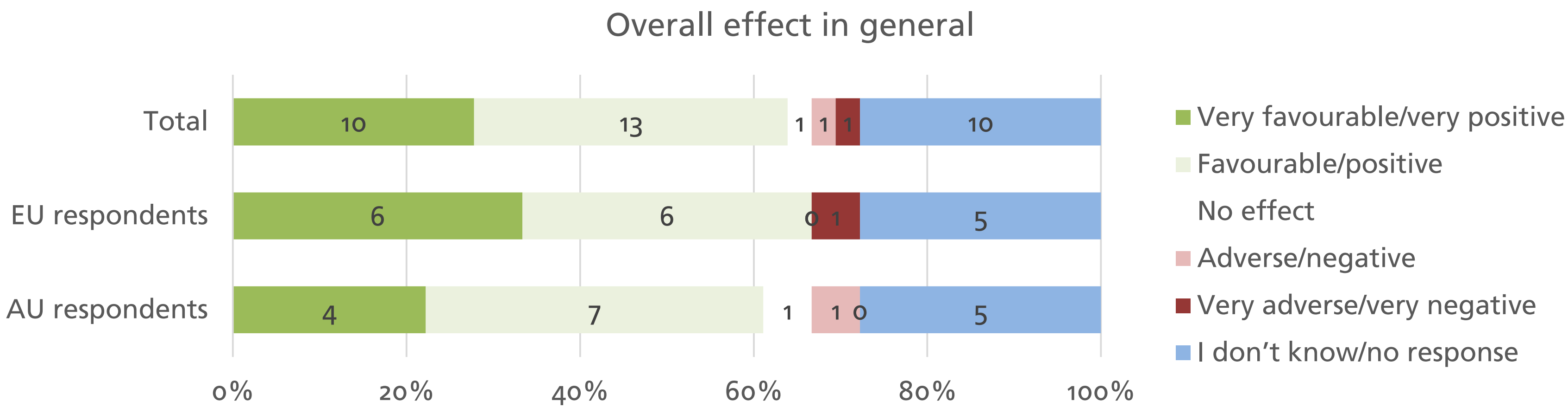
1. Consultations summary

Summary of consultation activities

- Continuous consultations – some **metrics**:
  - Website hits: ≈5,000 (AU-EU) / ≈3 000 (NZ-EU)
  - Newsletters to ≈350 (EU) / ≈110 (AU) / ≈90 (NZ) stakeholders
  - Online surveys: ≈36 (AU-EU) / ≈24 (NZ-EU) / responses (after extension of survey period)
  - Interviews: ≈50 (EU + AU + NZ)

- Overall **moderate interest by stakeholders**
  - Limited number of contributions
  - High interest by small group of stakeholders

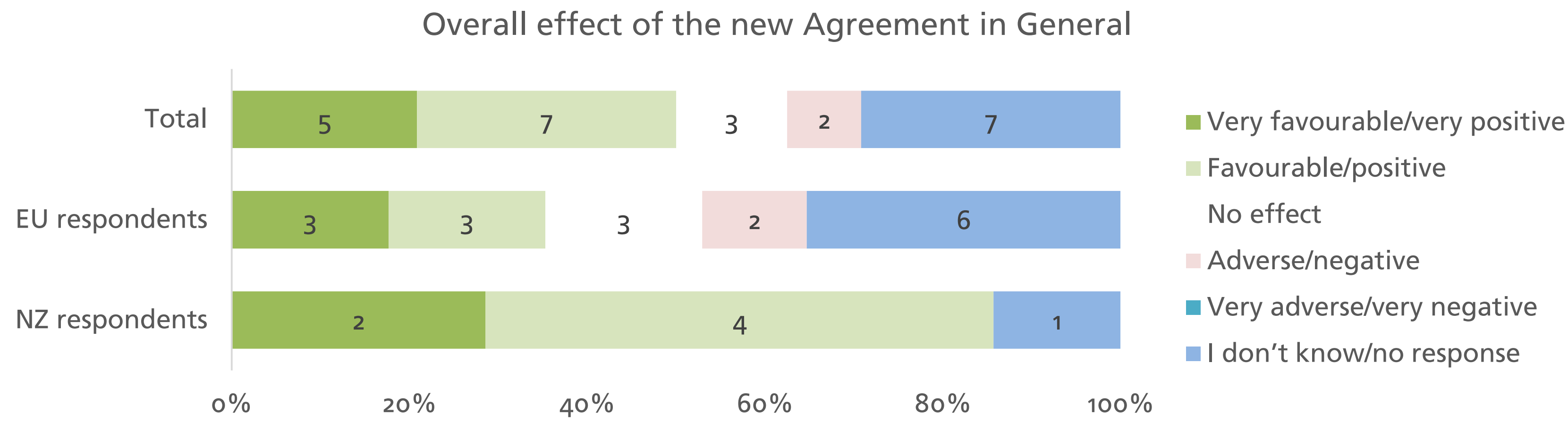
Summary of stakeholder feedback EU-AU



- Favourable view: >60%; negative view: <10%
- Similar views by EU and AU stakeholders; similar effects in AU and EU

- Key **negotiation issues** as seen by stakeholders:
  - EU stakeholders: 1) removal of remaining tariffs; 2) simple/less strict rules of origin, esp. for SMEs; 3) competition rules
  - AU stakeholders: 1) removal of TRQs; 2) removal of remaining tariffs; 3) rules on state aid

Summary of stakeholder feedback EU-NZ



- Favourable view: 50%; negative view: <10%
- NZ stakeholders more positive; effects in NZ more positive

- Key **negotiation issues** as seen by stakeholders:
  - EU stakeholders: 1) rules on state aid/subsidies; 2) removal of remaining tariffs; 3) stronger rules for environmental protection
  - NZ stakeholders: 1) removal of remaining tariffs; 2) removal of TRQs

2. Global analysis: main findings and recommendations

Economic impact: preliminaries

- Basis for analysis (also derived non-economic impacts): **CGE model** of EU-AU and EU-NZ FTAs considered jointly
- Analysis of **two hypothetical scenarios** providing bracket of potential impacts – not actual negotiation outcomes; Assumptions:

Conservative Scenario	Ambitious Scenario
• All tariffs removed for non-agricultural goods • No liberalization of agricultural goods • NTBs for services reduced on both sides (AVE reduction 3%)	• Same as conservative scenario plus: • All agricultural tariffs and TRQs, and EU entry price system for fruits and vegetables abolished • NTBs for non-agricultural goods in AU + NZ (not EU) reduced (AVE reduction 10%)

- **Remember:** CGE models constitute simplified abstractions of reality – findings need to be contextualized and considered against the model specifications and assumptions

Economic analysis: macroeconomic impacts

	EU27		New Zealand		Australia	
	Cons.	Amb.	Cons.	Amb.	Cons.	Amb.
Major macroeconomic indicators						
Welfare (€ million)	2 176	4 086	381	567	875	1 371
Real GDP (€ million)	1 755	3 917	680	1 333	2 822	4 741
Trade effects						
Bilateral exports (% change)	16.1	32.5	10.2	23.4	5.5	10.4
Factor markets						
Real wages unskilled labour (% change)	+0.0	+0.0	0.3	0.7	0.2	0.3
Real wages skilled labour (% change)	+0.0	+0.0	0.2	0.5	0.2	0.3

- Impact on Turkey and LDCs: negligible
- Some negative impact of FTAs on EU Outermost Regions possible, but level of direct competition unclear (e.g. wine)

Economic analysis: other impacts

- **Sectoral impact – output:**
  - **EU:** gains for gas (0.4%), motor vehicles (0.3%) and machinery (0.1%); losses for beef & sheep meat (-1.4%), sugar (-0.2%) and vegetables & fruit (-0.2%);
  - **AU:** gains for beef & sheep meat (4.6%), sugar (+0.8%) and oilseeds (+0.6%); losses for machinery (-2.2%), motor vehicles (-1.8%) and gas (-0.8%).
  - **NZ:** gains for beef & sheep meat (4.1%), vegetables/fruits (+2.2%), utilities (+1.7%); losses for machinery (-2.8%), motor vehicles (-2.7%) and cereals (-1.7%).
- **Investment:** 87.2% rise in FDI flows to AU & NZ, and 20.8% rise in inward FDI stock
- **Public procurement:** 50.4% increase in EU exports to AU & NZ public procurement
- **SME impact:** positive, resulting from improved market access for SMEs through trade and investment liberalisation, global supply chain integration, and overall reduction of administrative costs via lower entry and operating expenses

Social and gender analysis: main findings

- **Employment:** limited impacts for the EU, more pronounced and mixed for AU and NZ. Most affected sectors: ruminant meat (EU – / AU + / NZ +), fruits and veg (NZ +), motor vehicles (EU + / AU – / NZ –), machinery (EU + / AU – / NZ –)
- **Real wages:** negligible changes in the EU, limited increase in AU (0.2%-0.3% skilled & unskilled workers) and NZ (0.2%-0.5% skilled; 0.3%-0.7% unskilled workers)
- **Consumers:** limited positive impact (marginal price changes in the EU, slightly more pronounced and mixed in AU and NZ); increased diversity of goods and services; and upholding high standards
- **Vulnerable groups, poverty, inequality:** limited impact (limited wage and welfare increase, limited price changes)
- **Public policies & social protection:** very limited, if any (revenues foregone)

Social and gender analysis: main findings

- **Job quality and rights at work:** negligible impact of FTAs in EU; potential positive impact for AU and NZ (e.g. further improvement of health and safety at work, encouragement of dialogue and cooperation about rights at work under TSD chapter, commitment to ratify remaining fundamental ILO conventions)
- **CSR/RBC practices:** limited positive (increased investment may open opportunities to pursue CSR/RBC practices in local branches; promotion of CSR/RBC practices through cooperation activities under TSD chapter)
- **Women:**
  - **female workers:** very limited impact (EU, AU, NZ);
  - **female entrepreneurs:** limited positive results (EU, AU, NZ) in services sectors and limited (mixed) for others;
  - **female traders:** good prospects due to increased exports (e.g. textiles, food and agro-based products)

Human rights analysis: main findings

- Potential impact based on screening: right to work, right to the highest attainable standard of physical and mental health and access to essential medicines;
- **Right to work:**
  - Overall marginally positive; pressure in some sectors, e.g. beef & sheep meat in EU, machinery & automotive in AU & NZ;
  - TSD potential positive effect on labour rights;
- **Right to health:**
  - **EU:** Marginal effects (increased trade in food with potential negative health effects); negligible tariff revenue impact; negligible emissions effect;
  - **AU & NZ:** Marginal from food trade; impact on access to medicines cannot be assessed (less access but lower healthcare costs from IP); negligible tariff revenue impact; negligible emissions impact.

Environmental analysis: main findings

- **Climate change** - non-CO_2 greenhouse gas (GHG) emissions:
  - **Ambitious scenario:** increase in AU (2.3 mton CO_2-eq., +1.3%) and NZ (0.7 mton, + 1.5%) in 2030 compared to no-FTA situation;
  - Mainly driven by expected increase caused by the FTAs in emissions from the agricultural sector in AU and NZ
  - Partially offset by lower emissions in EU and the rest of the world, as result of trade diversion: **global non-CO_2 GHGs expected to increase by 1.6 mton (+0.01%)**
  - **Conservative scenario:** global decrease by 0.1 megaton.
- **Ecosystems and biodiversity**
  - **Ambitious scenario:** FTA expected to increase existing pressures on biodiversity in AU and NZ as result of increased agricultural production.
    - In AU, increased agricultural production (e.g. beef & sheep meat) could lead to significant **land clearing** (currently a major environmental threat in AU, affecting biodiversity and climate change).
    - In NZ, increased agricultural production could have a negative impact on **soil quality** and, consequently, **aquatic ecosystems**.
  - **Conservative scenario:** Impacts expected to be **marginal**.

Global analysis: main recommendations

- Gradual and/or partial liberalisation to allow adjustment of sectors impacted negatively (e.g. beef & sheep meat in EU; machinery in AU & NZ);
- Open economies for two-way investments and public procurement markets;
- Aim for ambitious TSD chapter:
  - Rights at work: identify steps to be taken by AU and NZ towards ratification and implementation of remaining ILO fundamental conventions
  - Promote CSR/RBC practices, strive towards high standards on health and safety at work and non-discrimination (including rights of migrant workers);
  - Explore ways to offset the potential marginal negative impact on GHG emissions and minimise land clearing

Flanking measures

- Support SMEs and women entrepreneurs to reap potential benefits of the FTAs
- Monitor FTA effects on potentially negatively affected sectors and consider support measures (e.g. training, increase employability)
- In addition to existing ex-post evaluation approach, do more regular HR impact assessments and include HR explicitly in the dialogue platforms.

3. Sector analysis and case studies: main findings and recommendations

Overview of sector and case studies

Sector analyses (AU and NZ)

- Ruminant meats
- Motor vehicles and transport equipment
- Machinery
- Dairy
- Communication and business services

Case studies AU

- Wine Sector
- Access to critical raw materials: lithium
- Textiles labelling and rules of origin
- Eco-systems and biodiversity
- Sugar production & water quality
- Iron ore mining

Case studies NZ

- Vegetables, fruits and nuts
- Children's rights and poverty
- Eco-systems and biodiversity
- Aluminium

Selected findings & recs: sectors

- **Findings:**
  - EU: benefits for motor vehicles and machinery (small relatively; large in absolute terms), but also chemicals/pharmaceuticals and dairy;
  - AU: benefits for beef & sheep meat, communication/other services;
  - NZ: benefits for dairy, beef & sheep meat and vegetables & fruit sectors.
- **Interesting:**
  - Transport services are positively impacted on both sides;
  - Output effects and CO2 emissions beef & sheep meat sector;
  - Geography matters – e.g. dairy very concentrated in AU/NZ, social effects in EU regions
- **Recommendations:**
  - **Negotiations:** Gradual/partial tariff liberalisation/TRQ lifting for adjustment of sectors impacted negatively (e.g. beef & sheep meat in EU);
  - **Flanking measures:** Support SMEs on the ground in EU, AU and NZ so that they can benefit from the FTAs (in close cooperation with EU MS).

Selected findings: case studies EU-AU

- **Wine sector:** two-way trade increases: EU and AU are competitive (different wine-making techniques); limited overall effects due to trade diversion: marginal social/HR (seasonal employment, migrants) and environmental effects.
- **Access to critical raw materials: lithium:** small effects; more AU-EU trade (trade diversion CHN); potential environmental effects: water quality from mining lithium.
- **Textiles labelling and rules of origin:** EU important export destination for AU (not vice versa); tariffs matter; EU RoO proposal increases market access.
- **Eco-systems and biodiversity:** FTA effect mainly: clearing/grazing (ruminant meat).
- **Sugar production:** water quality effects from sugar sector expansion in AU expected to be minimal.
- **Iron ore mining:** AU trade diversion (CHN to EU) and EU diversion (BZL to AUS); no large production impact; positive welfare; no sustainability effects; sharing best practices

Selected findings: case studies EU-NZ

- **Vegetables, fruits and nuts:** Large trade surplus for NZ; significant NTMs; positive social and HR effects in NZ due to growth – some environmental impact from water use (not air quality).
- **Children's rights and poverty:** child poverty an issue in NZ (27% live in low income households); Maori, Pasifika and children with disabilities especially affected; FTA effect marginal (ILO Conv ratifications, employment).
- **Eco-systems and biodiversity:** NZ native biodiversity under pressure; growth in agricultural production (meat, dairy) could impact via land use and water, but effects very small; invasive alien species very low risk; TSD chapter upside potential.
- **Aluminium:** large environmental footprint, but FTA effects very small; production does not change in EU or NZ

Way forward

- Comments on draft final report: send by

31 January 2020

- Completion of study by **March 2020**

- Send comments to:

sia@bkp-advisors.com

Questions, comments?