

## **The European Commission's Sustainability Impact Assessment project: experience and current challenges**

by Eric Peters<sup>1</sup>

*Since 1999 the European Commission has been developing a tool to help policy makers build sustainable trade policy, the so called Sustainability Impact Assessment. This article presents the EC approach to SIA and, building on past experience, looks at concrete way forward that could be further explored to improve SIAs.*

### **I. Why does the European Commission undertake SIAs?**

#### **I.A. Trade policy and the promotion of sustainable development**

Since the Rio World Summit, the concept of sustainable development has emerged as a key element of the policy-making sphere. Increasingly, policy makers have been asked to design their policies not only with the aim to economic growth but also to sustainability, i.e. including prudent management based on a trade-off between economic, social and environmental resources and a particular attention to non-immediate needs ("Development that meets the needs of the present without compromising the ability of future generations to meet their own needs").

As a key strategic objective, sustainable development has been integrated in EU primary law (Amsterdam Treaty) as well as in international decisions (MDG, Monterrey, preamble of the Doha Development Agenda).

Trade policy is a key policy area in which decision makers are expected to deal with complex clusters of issues, sometimes with conflicting objectives. International bodies such as UN (Millennium Summit, Johannesburg) or the WTO (Doha Development Agenda) involve trade contributing to growth in ways that dovetail with the requirement of good governance and sustainable development principles.

Generally speaking, EU trade policy makers recognise that trade policy has multifaceted impacts on sustainable development which rely on timing and framing circumstances:

- i. trade liberalisation can create positive opportunities - for economic growth, social development (promotion of female activity) or the environment (better use of environmental resources) - but it can also have potential negative environmental (risk of over-exploitation of certain resources) and social impacts
- ii. the economic and other long-term benefits of trade opening are not automatic, but depend on a high number of external factors (regional integration, coordination with domestic and institutional framework, market failures, information asymmetry and domestic law enforcement);
- iii. liberalisation generates environmental and social adjustment costs which affect the poorest section of society first. Experience shows that these costs can be mitigated if addressed by relevant policy measures.

#### **I.B. SIA as a tool for sustainable development and better governance**

The Agenda 21 and the Rio declaration required the setting-up of mechanisms allowing the mainstreaming environmental and social concerns into policies with a view to promoting sustainable development. Since the 1990s the Commission has developed various tools to implement

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<sup>1</sup>the author is a member of the EU Commission's DG Trade Sustainable Development team.

precautionary approaches enabling it to better understand the benefits and costs of its policies and to manage risk, including ex-ante assessment of policies.

In this context and also because of the growing civil-society demand for more debate on trade policy since Seattle, DG Trade opened the trail of ex-ante assessment of trade policy with SIA in 1999.

Since then, SIA has been generalised and is now enshrined in a broader Commission commitment to Impact Assessment endorsed by the Gothenburg European Council in 2001. The Commission Communication on Impact Assessment (COM/2002/0276 final) introduced a comprehensive regulatory and assessment framework for all policy areas, including trade. Complementarities and synergies between SIA and IA will be further developed by methodological improvements.

SIA is also a tool that helps policy makers to design trade policy in a way that meets the requirements of good governance.

Improving governance at all levels was identified by the Commission as a strategic objective in 2000. SIA is contributing to international, European and national governance by ensuring greater coherence of EU policies, giving a straightforward and global view of problems, ensuring greater reliability through transparency and consultation and ensuring openness of the policy-making process by associating stakeholders and third countries with EU policy analysis.

## **II. What is an SIA ?**

### **II.A. Overall presentation**

Since 1999, the Trade Directorate-General of the European Commission, which negotiates trade agreements on the behalf of the European Communities, has been designing and implementing a methodological framework to assess the impact of trade policy on sustainable development, known as the SIA.

An SIA is a strategic assessment, a process undertaken by the Commission for each major trade negotiation. It has two main stages:

#### **(i) Step 1: the assessment**

The SIA as such is carried out by external consultant. This first phase aims at reaching the following objectives:

- providing an in-depth assessment of likely changes induced by the agreement on economies, social development and the environment in any geographical area potentially impacted;
- providing inputs to the clarification of trade-off and to the definition of trade negotiating positions and a full package of policies (not trade-restricted)
- building an open process of consultation around trade policy creating a basis for a rational and informed discussion with a broad range of stakeholders from civil society, and international organisations
- upgrading the EU's institutional and political dialogue with its trading partners on sustainable development
- shedding light on how trade policy contributes to international agreed processes on sustainable development and notably the Millennium Development and Johannesburg goals.

#### **(ii) Step 2: the integration of SIA results into policy making**

This second phase is undertaken through a process which includes internal and external consultation and analysis and results in the drafting of an official Commission position paper. The position paper specifies how the Commission intends to integrate SIA results into the policymaking process.

The Commission's response can include:

- (i) points of agreement and response to possible disagreement towards results
- (ii) the decision to carry out complementary analysis,
- (iii) the identification of lessons to be learnt or ideas for technical assistance,
- (iv) monitoring proposals.

## **II.B. Implementation: the 10 Commandments of SIAs:**

Principles and working methods adopted so far by DG Trade for carrying out the SIA are as follows:

- SIA should be carried out for all major multilateral and bilateral trade negotiations.
- Analytical assessments should be carried out by external consultants selected by public procedures. Consultants should work in a free mode.
- All three pillars of sustainability (economic, social, environment) should be tackled equally
- All trade measures of a trade negotiation should be assessed (tariff measures as well as services, trade regulations (trade in investment, public procurement, intellectual property...))
- Not only sustainability impacts on the EU but also impacts on third countries should be analysed and assessed
- The EU is committed to conducting SIA in co-operation with third country partners
- Processes should permit all stakeholders to participate in the analysis of issues and impacts
- Immediate and complete public availability of the results of the SIA should contribute to build a credible process
- Participation of all concerned agencies and negotiators within an internal steering process should ensure the relevance of the SIA process. Co-ordination with Member States and MEPs is also being established
- SIA results should be integrated into Commission's policies.

## **III. The European approach and experience gained so far**

### **III.A. The Assessment steps**

When SIA was launched in 1999, the Commission was starting from scratch and no methodology was available for studies of this scope. Nevertheless Strategic Impact Assessment and Environmental Assessment methodologies provided interesting insights and experiences which were used in the development of the SIA methodology.

The SIA project has been developed through learning-by-doing and has developed in order to response to emerging needs (consultation outside the EU, more detailed intra EU analysis) and evolving objectives<sup>2</sup>.

The assessment stage includes two complementary elements: analytical assessments and consultation process.

- Economic, environmental and social *assessments* as such, using analytical tools and rational causal chain analysis. The quality of the assessment determines the credibility and the relevance of the SIA results as input in the negotiation process. It is therefore vital that this element is undertaken in a clear, scientific and objective manner;

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<sup>2</sup> For a comprehensive view on SIA, see [http://trade-info.cec.eu.int/consultations/documents/consul\\_114.pdf](http://trade-info.cec.eu.int/consultations/documents/consul_114.pdf)

- A wide *consultation process* in which both consultation and dissemination of results among stakeholders and trading partners are undertaken. The quality of this process is key to ensuring the ownership of the process by European and third party societies, legitimacy in the use of SIA results and a quality checks for the assessment results.

The two elements - assessment and process - are equally important and are mutually supportive for ensuring quality, credibility and legitimacy of the SIA.

### **III.A.1. Screening**

The first stage is a *screening exercise* to identify which trade measures (tariff reduction, improved access in a service sector, etc) require SIA because they are likely to have significant impacts inside and outside the EU. The screening analyses the trade negotiation mandate with the help of four criteria:

- 1) Affected areas already under economic, social or environmental stress
- 2) Significant economic, social or environmental impacts likely linked to trade measures.
- 3) Significant contribution to cumulative impacts likely
- 4) Existing regulatory framework sufficient to implement appropriate mitigating and enhancement measures

### **III.A.2. Scoping**

The next stage is *scoping* to establish the appropriate coverage of each SIA, taking each of the measures identified in the screening exercise and identifying which components of those measures are likely to give rise to significant impacts. Ideally, this is carried out through a *preliminary SIA* to identify potential significant effects, both positive and negative, on sustainable development. The scoping phase also analyses according to core indicators, trade liberalisation scenarios and target country groups using simplified Causal Chain Analysis (CCA). An initial prioritisation of key issues undertaken during the scoping phase appeared to be an essential element of the preliminary phase in order for the SIA to focus on key issues and to optimise the allocation of time/money to these issues early in the process.

### **III.A.3. Detailed SIAs**

Subsequently, a detailed SIA is carried out for each individual trade measure. Detailed assessment reviews the SIA based on preliminary assessment but in greater detail by

- 1) Analysing separate components of the trade measure and their cumulative impact
- 2) Using detailed causal chain analysis
- 3) Subdividing the nine core indicators (or themes) into second tier indicators
- 4) Coping with variations within country groupings (or single countries) by selecting contrasting countries (regions)

#### **Results of the EU-Chile SIA (Planistat 2002)**

An SIA of the EU-Chile negotiations was carried out in 2002. The final report of this study is available on <http://europa.eu.int/comm/trade/issues/global/sia/reports.htm>. Some results of the study are listed below.

- ☐ Economic impacts are very limited both in the EU and in Chile but positive in both.
- ☐ In the case of the EU, no noticeable social and environmental impacts were identified because of a higher dispersion of these impacts.

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- ❑ In Chile, potential social impacts were expected to be positive overall (e.g. improvement in urban living standards), even if some negative impacts linked to pre-existing social problems were foreseen.
- ❑ Potential environmental impacts were identified for some specific Chilean sectors (mining, metals, chemicals, and fisheries).
- ❑ The SIA stressed the role of domestic regulation and of the involvement of private operators (Corporate Social Responsibility) for mitigating negative social and environmental impacts.
- ❑ the SIA is likely to underestimate the absolute value of impacts, in particular economic impacts. This can be partly explained by gaps in the assessment of the services and investment sectors due to methodological limitations.

*An example of SIA results: summary of sustainability impacts for Chile (Planistat 2002)*

	Dimensions / Significance Criteria				
	Overall Direction magnitude	Existing conditions	Equity	Reversibility	Capacity to change
<b>I Economic</b>					
1. Real income	?	?	?		
2. Net fixed capital formation	?	?			
3. Employment	?		?		?
3.1 Selfemployment, informal employment	?	?	?	?	?
4. Consumer effects	?	?			
<b>II Social</b>					
5. Poverty	?	?	?		?
6. Health and education	?	?			?
<b>III Environmental</b>					
7. Environmental quality	?	?			?
7.1 Air quality indicators	?	?			?
7.2 Water quality indicators	?	?			?
7.3 Land quality indicators	?	?			?
8. Biological diversity	?				
8.1 Designated eco-systems	?			?	
8.2 Endangered species	?				
9. Other natural resource stocks	?	?		?	?

**Symbols:**

- ? non-significant impact compared with the base situation
- ? positive lesser significant impact (marginally significant, by itself, to the negotiation decision)
- ? negative lesser significant impact. (marginally significant, by itself, to the negotiation decision but a potential candidate for mitigation)
- ? positive greater significant impact (likely to be significant, by itself, to the negotiation decision)
- ? negative greater significant impact. (likely to be significant, by itself, to the negotiation decision. Merits serious consideration for mitigation)
- ? positive and negative impacts likely to be experienced according to context
- ? net effect is uncertain

### **III.A.4. Mitigating and enhancing measures**

The methodology includes a full synthesis of impacts assessed in previous phases and *mitigation and enhancement analysis* to suggest types of improvements or flanking measures that may enhance the proposal's overall impact on sustainable development. Possible flanking measures should make it possible to maximise the positive impacts and to reduce any negative impacts of the trade negotiations in question. The sphere of activity of flanking measures can extend beyond the commercial field (internal policy, capacity building, and international regulation). This stage of the SIA is particularly important in relation to developing and least developed countries. For example, the mitigation and enhancement measures to be assessed are not confined to trade measures, and can include:

- measures by national governments to remedy market imperfections, regulatory failures, social inequalities
- measures that are closely trade-related and which might be built into a trade agreement itself
- closely related side or parallel agreements
- collaborative agreements and other joint initiatives between international organisations
- international and regional initiatives

### **III.A.5. Ex post monitoring**

The SIA methodology includes the setting up of ex-post monitoring activities for ensuring a better implementation of the agreement under scrutiny and a better quality check on the SIA: ex-post monitoring should allow recommendations to be made for better implementation, additional M&E measures and improved research methodology

This final stage should include:

- 1) Monitoring activities undertaken during the implementation of the agreement
- 2) Activities to monitor impacts of the agreement on sustainable development
- 3) Evaluation and actualisation of studies comparing ex-ante assessment with ex-post facts.

The Ex-post activities should feed the bilateral dialogue on SD between both trading partners.

### **III.A.6. Summary of experience gained on assessment steps**

In the light of past experience the following conclusions can be drawn:

- The preliminary assessments carried out during these two first steps are fundamental in an SIA as they give legitimacy to the more detailed studies. Experience shows that the initial focus on trade context and good coordination between the consultant and negotiators is essential during screening and scoping.
- There is a need to start an SIA with a more detailed scene-setting of the trade and sustainable development context (trade flows, trade barriers, environmental, social and economic background).
- Global coherence between general and sector studies should be improved and looked at carefully when implementing future SIAs
- These assessment steps should permit gradual and rational identification of key sustainably issues.
- So far no ex-post SIA has been carried out, due to the lack of maturity of current SIAs. Only the EU-Chile case is sufficiently advanced for an ex-post SIA.

Experience shows that one major difficulty of assessment stages lies in the management of the very large scope of issues at stake and widely varying availability of data.

In order to obtain relevant and detailed results, SIA should be based on iterative steps associating assessments with consultations and aiming at selecting key issues and potentially affected geographical areas through a prioritisation process.

Each reduction in scope of the analysis (using sector-specific studies (market access, environmental services etc.) should be carried out through a clearly explained rational and gradual approach including:

- 1) An analytical and rational assessment phase (using relevant assessment tools) which should isolate a limited number of issues, social groups and geographical areas which appear to be key in terms of the gravity of the impacts expected.
- 2) Confirmation of the relevance of these key issues in potentially affected geographical areas through the consultation of stakeholders and trading partners.

### III.B. SIA tools

#### III.B.1. Checklist

##### (i) Scenarios

Scenarios define the scope of the evaluation and reflect the likely range of realistic outcomes in any given negotiation

*Original scenarios for trade measures in agriculture used in the SIA food crops (SEI, 2002)*

	Baseline UR	Scenario 1	Scenario 2	Scenario 3
Tariff reduction	-36%	-10 %	-30%	-50%
<i>De minimis</i> (market) access	5%	+2.5%	+5%	+7.5%
Domestic support (AMS)	-20%	-10%	-20%	-30%
Export support	-21% volume	-10%	-20%	-30 %

-+/- % changes are related to the final UR agreement

While the SIA methodology reckons to dovetail analyses within three hypothetical scenarios (baseline, liberalisation, further liberalisation) experience so far shows that in practice only two scenarios can be assessed because of a lack of data and of assessment tools. The baseline scenario reflects a future in which all past agreement are implemented. Past studies did not always sufficiently describe **precise and detailed scenarios**. This leads sometimes to a lack of differentiation among impacts, those which are **specific to trade measures** under negotiation (confusion between liberalisation/privatisation for instance)

##### (ii) Indicators

- Indicators are used to define the dimensions of sustainable development in which changes induced by trade measures are assessed.

##### Sustainability themes proposed by the SIA methodology (IDPM, 2002)

SD Pillar	Core indicators
Economic	Real income Fixed capital formation Employment
Social	Poverty Health and education Equity

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Environment	Biodiversity Environmental quality Natural resource stocks
<u>Process</u>	Consistency with principles of sustainable development  Institutional capacities to implement sustainable development strategies

The available literature offers a high number of indicators in all dimensions of sustainable development. Rather than adopting a comprehensive approach with lists of indicators, the methodology put emphasis on process related issues regarding the way indicator should be chosen. In particular, sustainable themes and core indicators give some guidance on the dimensions which should be considered.

In the light of experience, main conclusions that can be drawn are as follows:

- (i) the value of indicators is not so much in quantifying impacts (notably in a context of scarcity of data and measures) but rather in the structure of the analysis, as they point to key issues to be considered.
- (ii) selection of a detailed list of indicators should occur after an initial preliminary assessment in order to better focus on specific and key sustainability issues
- (iii) methodological improvement should be undertaken in order to ensure
  - coherence and consistency between general indicators used in overall assessment (preliminary analysis) and specific indicators used during sector studies
  - linkages with other general policy objectives (how to define indicators that allow the contribution of the trade agreement to Millennium Development Goals to be assessed)
  - coherence between the legitimacy of European choices for determining dimensions of sustainable development and involvement of third countries which can make different choices regarding indicators and collective preferences

*Sector indicators developed by the SEI in the SIA food crops (SEI, 2002)*

<i>IMPACT CATEGORY</i>	<i>SUGGESTED INDICATORS</i>
<b><i>Economic:</i></b> Economic performance Budgetary pressures Productivity Aggregate income effects	Agricultural GDP as % of total GDP Budgetary expenditure as % of GDP Agricultural GDP/employee Employment and income levels in the sector
<b><i>Social:</i></b> Food security Poverty Gender Population migration Social conflict Biodiversity	Average daily per capita calorie supply (kilocalories) Share of farmers below poverty line Women's engagement in the sector as a % of total female employment Urbanisation rates No. of protests and petitions (agriculture related) Protected area as % of total land area
<b><i>Environment:</i></b> Soil quality Deforestation Marginal land appr / idling Rural landscape change Depletion of water resources Water quality	Average annual fertilizer use in kg/ha Forest cover as % of total area and % changes Agricultural and forest land conversion rates % change Different landscape types in ha and % changes Annual water withdrawals as % of water resources Access to safe drinking water % of population

**(iii) Data**



SIAs are confronted with a general lack of reliable and homogenous data (the availability of coherent data being the exception).

For developing countries data gaps affect almost all sustainability fields (from economic to social and environment. Even in the economic field, when some data are available they are often unreliable because of the importance of the informal production sector.

Even for developed countries data gaps exist or data are not reliable:

- Trade/economic data: trade flows in services, foreign direct investment, public procurement
- social data : data with gender differentiation
- Environment data : biodiversity, land use and forest coverage

#### *(iv) Country groupings*

Groups of countries are used during the assessment to reduce the number of geographical units and frame the geographical scope of the assessment.

SIA is not restricted to specific geographical areas: impacts are analysed wherever they occur. Four target groups were identified in the methodological framework developed in 1999 and refined in 2002 for WTO negotiations:

- 1) European Union,
- 2) Non-EU developed countries
- 3) developing countries
- 4) least developed countries.

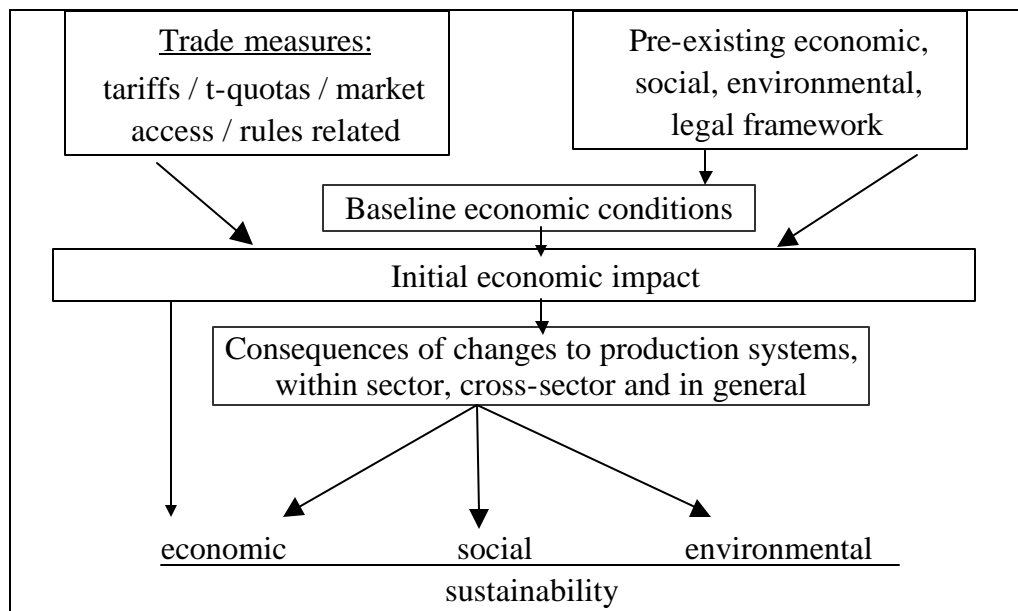
### **III.B.2. Assessment tools**

The SIA methodology indicates that there is no “one-size-fits-all” approach to sustainability impact assessment, and argues for the use of a range of quantitative and qualitative assessment tools, including case studies, modelling, statistical estimation and expert opinion. The benefits of incorporating a mix of qualitative and quantitative methods have been confirmed by experience and by other organisations that have undertaken SIA studies of trade liberalisation agreements.

#### *(i) Causal chain analyses*

Causal chain analysis aims at identifying the significant cause-effect links between the proposed change (scenario) in the trade measure and its eventual economic, social and environmental impacts. For example, a change in tariff levels will directly alter the pattern of prices facing producers and consumers. Similarly, a rules change in, for example, competition policy, alters the market conditions for producers and consumers, although the impact on prices will be indirect. The new structure of incentives and market opportunities will induce a change in the economic behaviour of producers, consumers and intermediaries. Changes in behaviour will affect the production system, inducing changes in the scale, composition, and technology of production (from Kirkpatrick *et al*, IDPM 2002-further development of the methodology)

Methodological framework developed within the SIA EU-Chile (Planistat 2002)



The experience gained so far shows that the causal chain analyses (CCA) so far developed would be clearly improved by further development of analytical tools notably with a view to ensure a better reliability of the identification of trade-related impacts. CCA of social and environmental impacts, which are often indirect, should in particular be given a specific focus.

#### *(ii) Case studies*

Case studies are used to shed light on sustainability issues and impacts in specific cases, in order to obtain more detailed results.

The SIA methodology and experience so far on case studies show that:

- Even if specifically mentioned in the methodology, case studies have not been used so far, except in the “food crops” SIA (Argentina, Egypt, Australia, Indonesia, EU, US, Malaysia, Senegal)
- There is a need to reduce the scope of studies and to better use case studies to feed the analysis
- Use of sector studies should not induce a bias whereby negative impacts will be overestimated relatively to positive impacts (this common characteristic of sector studies can be expected to be amplified in the specific case of trade policy whose positive impacts are global and diffuse while negative impacts affect restricted local areas or specific social groups)
- The SIA methodology should include criteria for the selection of case studies.

#### *(iii) Modelling*

Mainly economic modelling is used in SIA to assess quantitative impacts of trade liberalisation. Various models can be used (CGE, econometric, input-output, gravity models) depending on the purpose (general overview, sector analysis, regional analysis).

The main advantage of modelling results is to offer quantitative information which rely on clear and transparent hypotheses (for instance EU-Chile and EU-GCC SIA). In particular they are very useful at the stage of screening to identify key economic trends and related sustainability issues.

Nevertheless, the main shortcomings are that they shed light only on a part of the negotiations (mainly tariff related) in a static basis (dynamic effects are more difficult to assess). Modelling ignores a huge part of the trade agenda (trade in services, trade rules, investments).

*(iv)Networking*

- To some extent, assessments rely also on expert opinion. For this purpose, each consultant has developed its own international expert network.  
The SIA seminar held in Brussels<sup>3</sup> (6-7 February 2003) identified the need to establish polycentric networks of expertise (experts at international, regional, national and local level). The functioning of these world-wide experts network should be improved.  
Transparency about the role of SIA consultants as input in the analysis should be improved, and they should publish the composition of their network.

### III.C. The processes

#### III.C.1. Players in the SIA process

The SIA process is characterised by the participation of various players with different points of view, expectations and ability to participate. While the process is enriched by this diversity, it makes consultation much more complex and requires careful steering in order to maintain a balanced approach among stakeholders.

The main players of the SIA process so far identified are:

**Commission** : DG Trade as leader and all other services participate in steering SIA studies through the inter-service steering committee which ensure that the consultant respects the terms of reference of the SIA. The Commission expects detailed and credible results for integration into its policy making.  
**Member States'** experts are drawn, like the Commission inter-service group, from across the field. The **European Parliament** is also regularly consulted during the course of an SIA.

**Third country governments**, which are very sensitive to the sovereignty issue of a study which assesses impacts outside the EU. They often fear protectionist motives from the Commission and expect clear messages from the Commission on SIA use and goals. They have to be associated from the beginning of the SIA process as key players facilitating the consultation process abroad. Debate on SIA should also involve legislators of third countries.

**Contractors**: they are very important for keeping the SIA work independent. They have to cope with the complexity of the assessment and consultation process included in SIA.

**Civil Society**, including business and academics, and not just lobbying NGOs from within the EU and outside. Their inherent diversity in terms of views, expectations and capacity of interacting with the SIA process is a key parameter of the consultation process, as the SIA project seeks a balanced approach between views and expectations.

#### III.C.2. External consultation process during the assessment

Each of the main stages of the SIA methodology involves consultation as a key component of the methodology, intended to ensure a greater understanding and awareness among stakeholders of the SIA, and to allow a wide and inclusive process of consultation with different stakeholder groups. During past SIAs, the following measures have been implemented:

- Dialogue between the contractor and stakeholders with interests in individual sectors or in the negotiations as a whole
- Use of an international network of experts, in commenting on the project reports
- Publication of project reports on a dedicated website with facilities for comment
- Meetings with civil society organised by the European Commission and Member States, to discuss project reports (three times a year, attendance around 60-80 people)
- Engagement with the wider debate on the policy and practice of impact assessment of trade issues, through policy dialogue and conference participation.

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<sup>3</sup> SIA seminar 6-7 February 2003 [http://trade-info.cec.eu.int/civil\\_soc/docconsult.php?action=list](http://trade-info.cec.eu.int/civil_soc/docconsult.php?action=list)

The Food-crops SIA, as well as the EU-Chile SIA, pointed to the need to better involve civil society and representatives from third countries with a view to improving the quality of analysis and reinforcing the legitimacy of results.

Early in 2003, an SIA seminar held in Brussels put a strong emphasis on external consultation including the need to organise extensive consultations outside the EU, notably via local workshops. Local workshops were organised alongside the ACP SIA and are planned in the future EU-Mercosur SIA and ex-post EU-Chile SIA.

In order to ensure a better consultation process by consultants, DG Trade has drafted standards for consultation processes which consultants are required to implement.

As another contribution to this quest for better consultation, an International Advisory Committee (IAC) will be established within the new projects. Members of the IAC should be high level international experts (including members of international organisation such as ILO, UNEP, and UNDP), trade, environment and development government representatives and civil society representatives (NGOs, business organisations). The IAC should be involved in all the main stages of the SIA and eventually with the organisation of local workshops. The role of the IAC is to provide an overall guidance on substance and process to the consultant team and to involve more closely international experts.

### **III.C.3. Internal consultation process during the assessment**

For each SIA, an inter-services steering committee has been set up in order to involve all interested Directorate Generals in the SIA process. This steering committee meets regularly (3/4 times a year) to comment on reports or communicate expert opinions to the consultant.

Late in 2003 an expert group of Member States was established to ensure a better involvement of Member States' expertise.

The main activity of these groups is to comment reports and to feed the analysis of the consultant with expertise and experience of EU and Member States officials and agencies.

### **III.C.4. SIA results integration process**

The integration of SIA results is undertaken in a process (including consultation and analysis) whose aim is the drafting of an official Commission's position paper. The drafting is undertaken by the Commission's services in the light of internal analysis (Commission, Member States) and external analysis (civil society).

The position paper should specify how the Commission intends to integrate SIA results into the policymaking process: this may define points of agreement and respond to possible disagreements. It may also add complementary analysis, flag lessons to be learnt or ideas for technical assistance, or propose monitoring in association committee. For each SIA final report, a position paper<sup>4</sup> is drafted and discussed with Member States within the trade committee ("133 Committee").

Experience shows that a key basis for integration depends on the quality of the SIA analysis and on its level of detail. Monitoring activities to follow the implementation of decisions taken within the position paper should be set up in the course of 2004.

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<sup>4</sup> position papers are available on <http://europa.eu.int/comm/trade/issues/global/sia/news.htm>

## IV. Summary of experience so far and next steps

A summary of the lessons learned during past studies is proposed in the below table:

	Innovation	Main constraint	Experience gained
Seattle (1999)	<ul style="list-style-type: none"> <li>○ First SIA</li> </ul>	<ul style="list-style-type: none"> <li>○ Breadth of the SIA without detail mandate</li> </ul>	<ul style="list-style-type: none"> <li>○ Level of detailed should be improved to be used in the negotiation process</li> </ul>
Further development of the methodology 2001	<ul style="list-style-type: none"> <li>○ Central role of causal chain analysis and more detailed description of tools</li> <li>○ Extension of consultation to developing countries</li> <li>○ Need to develop ex-post assessment</li> </ul>	<ul style="list-style-type: none"> <li>○ Methodological improvement</li> </ul>	<ul style="list-style-type: none"> <li>○ Need to implement these new methodological features in SIAs</li> </ul>
Food crops (2001)	<ul style="list-style-type: none"> <li>○ Sectoral SIA</li> <li>○ Use of case study</li> <li>○ Need to consult developing countries</li> </ul>	<ul style="list-style-type: none"> <li>○ Provide highly detailed results</li> <li>○ Adapt the methodology</li> </ul>	<ul style="list-style-type: none"> <li>○ Number of scenarios: difficulty to assess more than 2</li> <li>○ Need to develop and use specific indicators</li> <li>○ Difficulty to bridge the gap between macro policies and micro and highly localised impacts</li> </ul>
Chile (2002)	<ul style="list-style-type: none"> <li>○ Use of economic modelling</li> <li>○ Need to involve third countries as soon as possible in the SIA</li> </ul>	<ul style="list-style-type: none"> <li>○ Timing (ex-post)</li> </ul>	<ul style="list-style-type: none"> <li>○ Better consultation process</li> <li>○ Involve third countries</li> <li>○ Develop assessment of services / trade regulation</li> </ul>
WTO (202-2004)	<ul style="list-style-type: none"> <li>○ Preliminary and sectoral SIAs (market access, competition, environmental services)</li> </ul>	<ul style="list-style-type: none"> <li>○ Geographical coverage</li> <li>○ Identify specific DDA issues (implementation of past agreement: textile)</li> </ul>	<ul style="list-style-type: none"> <li>○ Position paper for integrating results into policy making process</li> </ul>
GCC (2002-2003)	<ul style="list-style-type: none"> <li>○ Use of economic modelling</li> </ul>	<ul style="list-style-type: none"> <li>○ Lack of local civil society in third countries</li> </ul>	<ul style="list-style-type: none"> <li>○</li> </ul>
ACP (2002-2003-)	<ul style="list-style-type: none"> <li>○ Consultation process at a political level</li> <li>○ Organisation of local workshops (Senegal, Caribbean)</li> </ul>	<ul style="list-style-type: none"> <li>○ Lack of trade scenarios due to the early stage of negotiations</li> </ul>	<ul style="list-style-type: none"> <li>○ Need to improve the selection of key sustainability issues</li> </ul>

The process of improving the SIA started in February 2003, when DG Trade organised a seminar in Brussels on SIA. The seminar brought together actors from around the world to take stock of developments and to develop priorities for improving SIA with the help and input of both governments and civil society, in Europe and elsewhere.

In the light of the seminar outcomes and of DG Trade's experience, DG Trade has launched a process to revise and improve SIA methodology with a view to updating the methodological framework and publishing a Sustainability Impact Assessment handbook. This process is fully open and any expert willing to participate can comment DG Trade's papers and propose improvements (cf. SIA web site of DG Trade on <http://europa.eu.int/comm/trade/issues/global/sia/news.htm> )

On the basis of its past experience, exchanges with civil society and recent developments, the Commission wishes to put the emphasis on the following challenges which should be met by this methodological improvement process:

#### **IV.1. Quality of SIA analysis should be upgraded**

- ❑ Improving the quality of assessments, because integrating SIA results into trade policy requires relevant and detailed SIA results. Special attention should be given to following challenges:
- ❑ The need to improve the collection, reliability and availability of data and to develop a real long-term policy of research and development for assessment tools and models for trade policy: in particular environmental and social assessment methodologies have to be improved (notably by improving assessment methodologies and tools within the 6th Framework Programme of the Research Directorate).
- ❑ The need to mobilise academics in order to improve our understanding of causal links between trade measures and impacts on the three pillars of sustainable development. The robustness of this causal link analysis is a key determinant of the credibility of SIA results and their ultimate use into the policy making process.
- ❑ Better assess intra-EU policies: SIA should better identify impacts of liberalisation on the weakest regions in Europe and help policy makers integrate these impacts when setting policy priorities for regional policy. This use of SIA of trade liberalisation in regional policy has emerge in the last EU Cohesion report and in the Financial Perspectives endorsed by the Commission.

#### **IV.2 The consultation process has to be further improved**

Consultation is crucial but tricky: past studies have faced difficulties in establishing effective networks and in bringing together interested parties from different origins, such as developing countries' representatives and stakeholders, NGOs, and technical experts. Consultation process within and outside the EU should notably integrate the lack of capacity of most of the stakeholder to follow the different simultaneous SIA processes. A key element of good consultation concerns the report (size, readability), consultation process (time available to comment) as well as transparency of the integration of inputs. In this context, the consultation guidelines which are mandatory for the consultant to implement within an SIA should be reinforced.

- ❑ The European Commission needs to upgrade its political dialogue with its trading partners on SIA and sustainable development to facilitate the involvement of their civil society and improve mutual understanding on these policy areas. This upgrade can be achieved in several ways: within dialogue on the implementation of past agreements (ex-post monitoring of EU-Chile agreement) or within current negotiations (discussion on sustainable development within the EU-Mercosur negotiations)
- ❑ International experts and organisation should be better involved (International Advisory Committees).

#### **IV.3. Improving the integration of results into policy making process**

- ❑ Integrating SIA results into trade policy requires relevant, credible and detailed SIA results. It also requires follow-up activities involving negotiators in full discussion and analysis of results, appropriate conclusions on negotiating tactics, co-operation priorities and technical assistance.
- ❑ Implementing and improving the integration process set up recently throughout position papers.

#### IV.4. The use of SIA as a forum for policy dialogue

SIA should be more used to

- ❑ give a better basis on which to reconcile the different views of trade/sustainability trade-offs around the negotiating table between trading partners
- ❑ shed light on how trade policy contributes to international agreed processes on sustainable development and notably the Millennium Development and Johannesburg Goals
- ❑ help identify and shed light on collective preferences of negotiating trading partners
- ❑ link private sector initiatives aiming at sustainable development, notably CSR activities with public policies
- ❑ help developing policy coherence<sup>5</sup> and cooperation between the European Commission and international organisations (ILO, WTO, UNEP, UNCTAD, FAO, WB) in charge of international Sustainable Development initiatives.

#### V. Conclusion

SIA is still in its infancy and can be compared to a giant with feet of clay. The tool and the process have the potential to contribute substantially to shaping a better understanding of tomorrow's world. They could help avoid the negative perception which could one day prevent genuine and effective trade policies leading to development and growth. But it will not succeed unless all the actors involved around the world can be mobilised: that means civil society, NGOs, academics and policy makers.

It is also clear that our capacity to predict with accuracy what the effects of a trade agreement will be will remain limited by our inability to control all potential disruptions that may affect the complex range of systems (economic production system, natural resources), and their environment (decision of investors, domestic regulation framework, presence of safety nets, protection of environmental resources, etc.) The nature of trade policy, which acts *indirectly* on market deciders, reinforces this aspect of uncertainty.

Therefore, beyond the need to improve SIA quality and robustness, SIAs benefits would be greatly increased if SIAs were included in a strategic framework aiming at better integrating sustainable development within trade negotiations.

This framework should integrate the following three complementary elements:

- (i) integration of SIA within ex-post monitoring activities which will make it possible to improve the contribution of trade agreements to sustainable development by promoting coherence between the trade agreement implementation and cooperation. SIA can contribute to optimising the allocation of cooperation resources to the effective needs identified.
- (ii) developing joint implementation of SIA by trading partners to ensure legitimacy and foster integration of SIA results into policy making.
- (iii) linking these analyses to a flexible implementation of the agreement making it possible to react to changing conditions .

In this respect the involvement in international SIA projects of international organisations (ILO, WTO, UNEP) and the setting up of joint bodies for monitoring and assessing trade agreements (joint "Observatories" within regional trade agreements) would be highly valuable.

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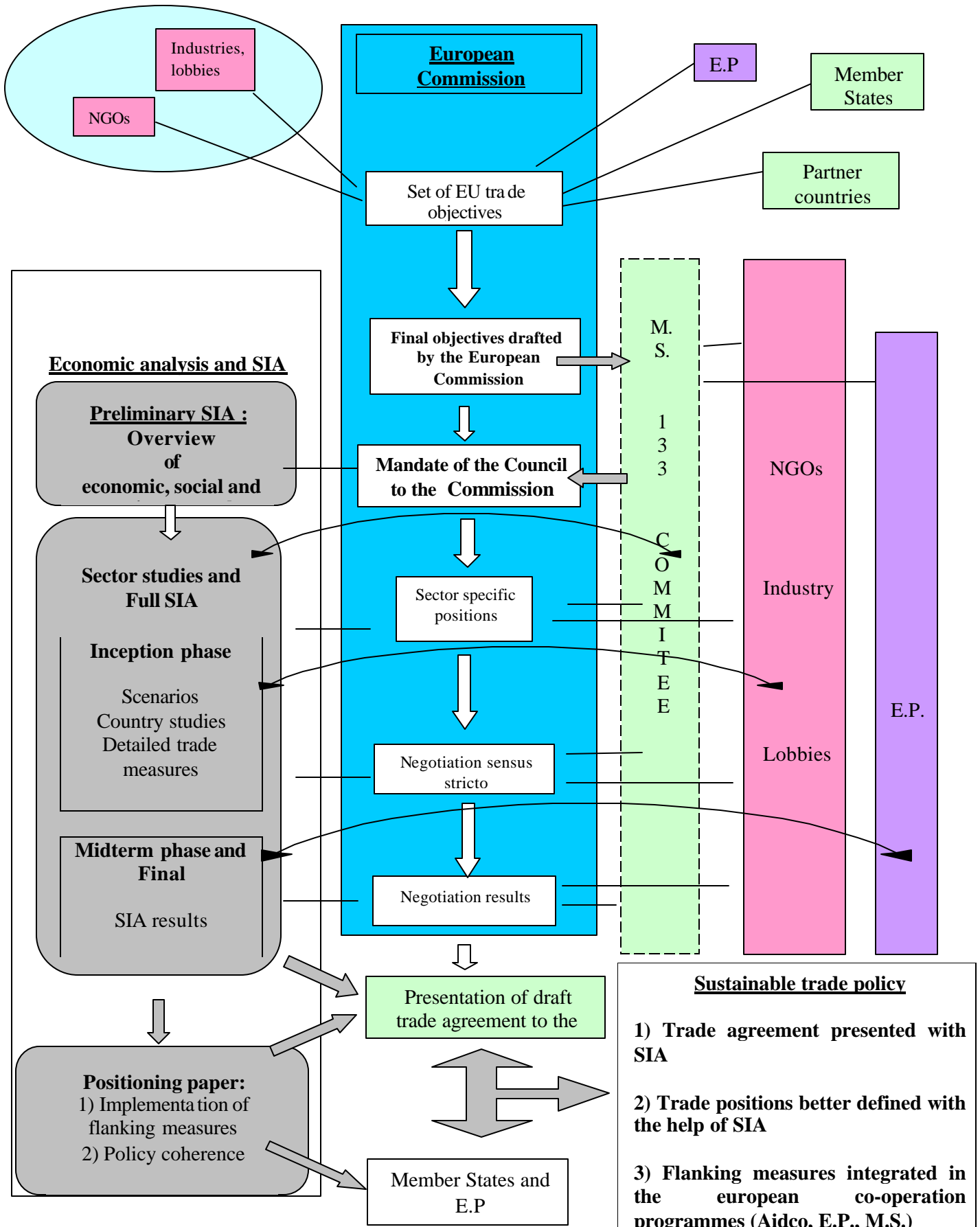
<sup>5</sup> Final report of the World Commission on social dimension of globalisation which ask for more policy coherence, released on 24 February 2004 : <http://www.ilo.org/public/english/wcsdg/docs/report.pdf>

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This new general framework would promote efficiency and coherence. It would also complete the recent evolution of the trade policy negotiation framework since 2001 which has resulted in the quasi systematic addition of increasing capacity-building budget and actions (WTO trust fund, ACP capacity building fund) along trade negotiations.



**Annex 1: Sustainable Trade policy: integrating SIA into the negotiation process**



**Annex 2: Overview of SIA projects undertaken by DG Trade**

SIA	1999-2000	2001	2002	2003	2004	2005	2006
<b>Methodology</b>	<b>IDPM</b>						
<b>WTO Seattle</b>	<b>IDPM</b>						
<b>Methodology Refinement</b>		<b>IDPM</b>					
<b>Budget</b>		<b>€ 40.000</b>					
<b>Food crops WTO</b>		<b>Stockholm Environment Institute (SEI)</b>					
<b>Budget</b>		<b>€ 40.000</b>					
<b>Chile - MERCOSUR 2001 - 2004</b>			<b>Planistat</b>		<b>Call for tender Consortium</b>		
<b>Budget</b>			<b>€250.000</b>		<b>€ 550.000</b>		
<b>WTO 2001 - 2005</b>		<b>Consortium Institute for Development Policy and Management Manchester</b>					
<b>Budget</b>		<b>€ 1.000.000</b>					
<b>ACP 2002 – 2006</b>		<b>Consortium PriceWaterHouseCoopers</b>					
<b>Budget</b>		<b>€ 1.000.000</b>					
<b>GCC 2002 - 2005</b>		<b>Consortium PriceWaterHouseCoopers</b>					
<b>Budget</b>		<b>€ 500.000</b>					

\* the contract with Planistat was cancelled in August 2003 for reasons unrelated to SIAs

**Current SIA reports:**

- Stockholm environment institute (2002) SIA- food crops <http://www.sei.se/policy/SIA-Food.html>
- Planistat (2002) SIA of EU- Chile trade negotiations <http://europa.eu.int/comm/trade/issues/global/sia/reports.htm>
- PWHC (2004) SIA of EU-ACP- final report of the preliminary SIA, regional SIA on Caribbean and West Africa <http://www.sia-acp.org/acp/uk/documents.php>
- PWHC (2004) SIA of EU-GCC- final report of the preliminary SIA, sector SIA on petrochemicals, aluminium <http://www.sia-gcc.org/gcc/uk/documents.php>
- Institute for Development Policy and Management (IDPM) WTO (2003-2004) Preliminary SIA of WTO negotiations, SIA on textiles, Pharmaceuticals, Textile, Non ferrous metals, Environment services, Competition, Agriculture, Distribution, Forests <http://idpm.man.ac.uk/sia-trade/Phase%203A/frontpage3A.htm>