

**STATEMENT BY THE OECD SECRETARIAT ON THE OECD'S WORK ON  
ENVIRONMENTAL GOODS AND SERVICES AT THE  
COMMITTEE ON TRADE AND ENVIRONMENT  
SPECIAL SESSION (CTESS) MEETING  
OF 12-13 OCTOBER 2004**

Paragraph 31 (iii)

The following communication, dated 8 October 2004, is being circulated at the request of the OECD Secretariat.

**I. A SUSTAINED INTEREST IN ENVIRONMENTAL GOODS AND SERVICES**

1. OECD interest in the environmental goods and services (EG&S) goes back more than a decade. It arose initially as part of its work on environmental policy and industrial competitiveness. A report prepared by the Industry Committee in 1992 described market developments in the environment industry and the role of environmental policies (OECD, 1992). A subsequent report (OECD, 1996a) expanded and deepened the analysis, collected available data, and showed a clear need for improving information on the industry and undertaking further analysis.

2. Publication of these results prompted numerous questions. What had been the record in exporting environmental technologies? Could the impact on industrial competitiveness due to the application of cleaner technologies be measured? How could environmental and economic policy be modified to encourage and support growth, job creation and trade in goods and services of the environment industry? It soon became apparent that answering these questions would require addressing major statistical and methodological difficulties related to problems of industry delimitation and data availability.

3. Before statistics could be gathered, however, a clearer definition and classification of the environmental goods and services industry had to be developed. To this end, the OECD, in collaboration with Eurostat (the Statistical Office of the European Communities), formed an Informal Working Group on the Environment Industry composed of experts from OECD countries who, as part of their work at national ministries for economics or industry, national statistical offices, or public or private research institutes, were responsible for collecting and analysing data on the environmental goods and services industry. The fruits of this collaboration were published in 1996 in *The Environmental Goods and Services Industry: Manual on Data Collection and Analysis*.

4. This exercise did not, however, address trade aspects. That task was taken up by the OECD's Joint Working Party on Trade and Environment (JWPTE), which decided to deepen the analysis first by identifying a list of representative goods (identified by 6-digit HS code) and services for the purposes of gaining a better understanding of the extent of international trade in the sector, and the

tariff and non-tariff barriers affecting it. Following the preliminary phase of the work, the JWPTE turned to the development dimension. In particular, it wanted to know whether concrete examples existed of “win-win” benefits accruing to developing countries from liberalisation of their environmental services markets. The results of these studies are compiled in a report published in 2001 under the title Environmental Goods and Services: *The Benefits of Further Global Trade Liberalisation*.

## **II. CURRENT WORK FOCUSED ON THE DDA PARAGRAPH 31(III) NEGOTIATIONS**

5. Following the WTO (Doha) Ministerial Declaration decision to launch negotiations on “the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services”, the JWPTE in 2003 once again turned its attention to the topic. The general aims of the current phase of this work are:

- (a) To explain the background to the paragraph 31(iii) initiative.
- (b) To explore some of the practical issues likely to arise in the negotiations on environmental goods, as well as options for addressing them.
- (c) To explore issues associated with particular categories of goods.
- (d) To develop, through analysis, a better understanding of the nature of the market for environmental goods and services - especially in rapidly industrialising countries - and what complementary policies they can adopt to help ensure that they reap the maximum benefits from liberalisation.
- (e) To document the synergies created by the liberalisation of trade in environmental services and trade in environmental goods.

### **A. A COMPARISON OF THE APEC AND OECD LISTS**

6. The first study carried out under the current work programme on EGS had a simple objective: to explain the origins, and the similarities and differences between the lists of environmental goods produced by the OECD and by Asia-Pacific Economic Co-operation (APEC).

7. These two lists are seen as separate but, in fact, their developmental phases closely paralleled each other and intersected at several points, the one exercise informing the other. That is not surprising, as six (eventually seven) countries were members of both organisations. However, the purposes that the lists were intended to serve differed from the start. The OECD list was meant to be indicative, particularly as a framework for undertaking economic analyses in general, and of trade flows and tariff barriers in particular, whereas the APEC list - for which the negotiation process came to an end before full consensus was reached - was the direct result of negotiated offers in the context of a trade-liberalisation initiative.

8. The OECD list was the result of an exercise intended to illustrate, primarily for analytical reasons, the scope of the “environment industry.” The selection of categories of goods could therefore be broad, because there were no specific policy consequences of adding products to the list. Moreover, the OECD’s larger list was created deductively: starting from general categories based on the classifications appearing in the environment industry manual, and adding more specific examples, in order to produce an estimate of average tariffs on a previously undefined class of goods.

9. By contrast, the APEC list resulted from policy discussions directed toward anticipated changes in tariffs. The drafters of the APEC list consciously based their categories of environmental goods in large part on the work being undertaken at the time by the OECD/Eurostat informal working group on the environment industry. But the process of choosing which specific goods to include started with nominations - not unlike the request/offer procedures traditionally used in trade negotiations. These were then arranged according to the agreed classification system. Since the aim of the APEC list was to obtain more favourable tariff treatment for environmental goods, APEC member economies limited themselves to considering only those specific goods that could be readily distinguished by customs agents and treated differently for tariff purposes. For this reason, issues related to “like products”, products defined by particular processes or production methods, and products defined by their life-cycle impacts, were not addressed, with the result that some goods were left off the list that could be included on the OECD list. This constraint of practicality could be relaxed in the OECD’s analysis because its aim was merely to illustrate what could potentially be included.

#### B. LIBERALISING TRADE IN ENVIRONMENTAL GOODS: PRACTICAL CONSIDERATIONS

10. Discussions on the paragraph 31(iii) negotiating mandate are still at an early stage, and their eventual outcome is uncertain. However, on the basis of the lists of goods nominated to date, there is a possibility that an eventual tariff-reduction or –elimination initiative could include goods not separately identified under the current Harmonized Commodity Description and Coding System tariff nomenclature (HS). Additionally, depending on what countries ultimately propose, negotiators may also have to consider whether to include goods: (i) that have multiple uses, some of which are not “environmental”; (ii) goods that are sold as entire plants or systems; (iii) goods of interest because of the processes or production methods by which they were manufactured, extracted or harvested; and (iv) goods that are defined by their superior environmental performance.

11. The OECD undertook a study that explores possible ways that these types of goods could be accommodated while remaining true to the principles of the WTO and the World Customs Organization (WCO). While the procedures for dealing with such goods often create additional transaction costs, there are precedents from previous sectoral agreements and initiatives that could be followed.

12. The study considers also the institutional and procedural implications of considering different categories of goods in a WTO initiative on environmental goods. Unless WTO Members decide to restrict any initiative on environmental goods to goods already described at the 6-digit HS level, they may eventually need to decide on how to deal with “ex heading” goods. Encouragingly, countries proposing “ex heading” goods so far have been diligent in identifying the HS sub-heading under which they would classify such goods; this suggests, perhaps, that agreement on goods coverage could be reached before an initiative on environmental goods is implemented - thus obviating the need for protracted *ex post* negotiations on classification matters.

13. Finally, the study points out that WTO Members may need eventually to decide whether to treat a tariff-reduction or elimination initiative on environmental goods as a one-off exercise, or to review its product coverage as changes in technologies and environmental requirements necessitate. Such a review mechanism would be virtually imperative if the initiative were to include among its coverage goods that are defined by their relative environmental performance.

#### C. ENERGY-EFFICIENT ELECTRICAL APPLIANCES

14. One such category of goods that are defined by their relative environmental performance are energy-efficient electrical appliances. Household and office electrical appliances are produced and

consumed in large and increasing numbers, both in industrialised and, increasingly, in developing countries. Energy-efficient electrical appliances are not currently distinguished in national tariff schedules from their less-efficient homologues, but many countries do already regulate the minimum energy performance of electrical appliances sold within their borders, and apply these regulations to imports. Could goods with better-than-average energy efficiency therefore be considered to be environmentally preferable, or even “environmental goods” in the sense implied in the DDA paragraph 31(iii) mandate to liberalise trade in environmental goods?

15. The JWPTE is currently working to finalise a paper that examines the practical issues that would have to be addressed were countries ever to seek to selectively improve market access for this class of goods.

16. Some relatively energy-efficient appliances employ technologies that are readily distinguishable from those used in their less-efficient counterparts; indeed, these can be found in some of the proposed lists of environmental goods submitted to the WTO. These types of goods do not present any particular problems in tariff schedules. But many electrical appliances achieve their high performance levels through combinations of features that would be difficult to characterise succinctly in the types of product descriptions normally used for customs purposes. This suggests that, were relatively energy-efficient goods as a broad category to be defined as “environmental” for the purposes of a market-access negotiation, it might be necessary and desirable to distinguish many of them according to a single criterion: their energy performance in use.

17. Currently, technical regulations and standards relating to energy performance vary widely from country to country. For one, only 30 to 40 countries currently regulate a minimum energy performance standard (MEPS) for one or more classes of electrical appliances. Most of these are developed or rapidly industrialising countries. Of those that have established MEPS, major differences exist in how countries classify and describe the products for which energy performance is regulated. Countries also specify the standards differently, and at different levels, and many require test procedures to measure energy performance that are not substantially identical to those set out in internationally established test standards.

18. The study considers whether there could be ways to reduce tariffs for relatively energy-efficient electrical appliances, and explores many of the associated technical barriers to trade in this category of goods. It finds that ongoing work towards harmonising test procedures for measuring the energy performance of electrical appliances is crucial, and progress in this area would itself help to lower an important non-tariff barrier affecting energy-efficient goods.

#### D. NATIONAL CASE STUDIES

19. The liberalisation of environmental goods and services (EG&S) can translate into real gains for both importing and exporting countries whatever their stage of development. In recognition of the importance of this liberalisation, the OECD commissioned eight country-specific studies which aimed to “identify complementary measures to ensure the maximum realisation of benefits from the liberalisation of trade in environmental goods and services”. At the same time, UNCTAD and the UNDP commissioned, respectively, six and four, similar country-specific studies.

20. In addition, the OECD has put together a synthesis report that: aims to identify determinants of demand for EG&S; to show common themes and experiences in the EG&S markets of eighteen countries; and to draw attention to key trade, environmental and development-policy linkages. It is hoped that this report, and the case studies, will contribute to the exchange of expertise and experience between countries in the field of trade and environment and that the findings will assist in ensuring that the liberalisation of trade in EGS works for all countries - developing and developed alike.

## E. SYNERGIES BETWEEN LIBERALIZATION OF TRADE IN ENVIRONMENTAL SERVICES AND IN ENVIRONMENTAL GOODS

21. The JWPTE's latest project in this area is exploring the connections between trade in environmental services and trade in environmental goods. As the OECD has long argued, many of the goods that it and other organizations have identified as essential for environmental protection and remediation are so important, in fact, because they are used in the provision of environmental services. When discussing the benefits of liberalising trade in environmental goods and services it is salutary to keep this synergy in mind.

22. This study will: (i) describe the different environmental services; (ii) highlight the key environmental goods that are vital for carrying them out; and (iii) show how trade in particular services stimulates the demand for certain goods. A final section is expected to demonstrate, through actual case histories, how the provision of environmental services - including goods produced by firms within the country importing the service - interacts with trade in environmental goods.

23. It is expected that the study will be a useful aid to those involved with, or interested in, the current WTO (DDA paragraph 31(iii)) negotiations on environmental goods and environmental services, and show, in as concrete a fashion as possible, why, for each environmental services sub-sector, environmental goods on the OECD and APEC lists are essential inputs.

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