

G2 HACKATHON CHALLENGE

How to Make the WTO
Fit for Future Trade



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2021 Hackathon Submission

How to Make the WTO Fit for Future Trade:
Rethinking and Rebooting the EGA

The Triumvirat

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Watch the Video



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Question #1

Define the substantive issue that your team is addressing, why it's a problem, and why your team believes the WTO is the right forum to address it.

Rethinking and Rebooting the EGA

The Environmental Goods Agreement (EGA) negotiations are in a deadlock, with a scarce revival prospect. The EGA seeks to reduce tariffs on environmental goods (EGs). EGs include products that create clean and renewable energy, mitigate pollution and manage waste, among others. EGA negotiations aimed at agreeing on a list of EGs that would benefit from tariff elimination but stalled in December 2016, as Members could not settle on a definite list. The starting point of EGA's list consisted of 54 goods agreed upon by the Asia-Pacific Economic Cooperation (APEC) countries. The crux of the problem consists of Members' limited engagement vis-à-vis the EGA and lack of diversity in participation. Currently, there are only two developing countries in EGA negotiations: China and Costa Rica. Moreover, out of 18 negotiating Members there are no least-developed countries (LDCs). It is this lack of participation that this proposal seeks to resolve.

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This lack of diverse participation poses a threat to environmental protection for two reasons. First, tariffs on environmental goods are already low within the pool of EGA negotiating Members, at 2.6% (De Melo and Solleder, 2018). The impact of the reduction would thus be limited at best. Second, participating Members could not settle on a list of EGs; as tariffs were low, export increase possibilities among EGA Members were too narrow. An expanded list was also too risky on account of free-riding risks arising from non-participating Members. Thus, EGA Members tried to strictly include in the list EGs on which they had a significant comparative advantage. Yet, the bulk of EGs import potential is found in developing Members that still maintain high tariffs. For instance, in the Caribbean and Central America, applied tariffs on environmental goods are on average still at 41% (ITC, 2014). To reach an agreement, it is thus of paramount importance to ensure an EGs list yielding gains for all players, including developing Members. EGA negotiations are key to the UN Sustainable Development Agenda and to the attainment of the Paris Agreement objectives. In order to reach this goal, the inclusion and participation of developing Members are crucial to foster the use of eco-friendly technologies and reduce CO2 emissions.

Trade and environment protection are closely interlinked. Since environmental issues transcend borders, they require an internationally concerted response. As a multilateral framework to negotiate trade rules, the WTO can play a prominent role in reducing tariff barriers related to EGs which contribute to alleviating climate change. Tariff reductions negotiated within the WTO have the potential to enable greater access to green technologies. Accordingly, Members agreed in Doha to negotiate, “the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services”. In this regard, Director-General Okonjo-Iweala remarked: “Trade policies can help unlock the green investment and innovation needed to decarbonize our economies and create the jobs of the future.” The WTO is thus the forum to make trade work for sustainable development.

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Question #2

Propose a specific treaty text, or more informal commitment/declaration text, that addresses either the concern or a particular, detailed aspect of it.

Joint Ministerial Statement on EGA

We, Ministers of the 18 Members currently negotiating the EGA,

Recalling our commitment towards the attainment of sustainable development as affirmed in the Preamble of the Marrakesh Agreement and the Doha Ministerial Declaration;

Desiring to increase trade in environmental goods (EGs) considering their central role in the achievement of sustainable development;

Noting the importance of developing and LDC Members with regards to environmental protection;

therefore invite WTO Members to undertake a novel approach in negotiating a plurilateral agreement on the substantial reduction of tariffs on EGs. In accordance with this:

1. Negotiations shall be conducted with a view to increasing incentives to ensure the participation of low and medium-income Members.
2. EGs shall be grouped in three different categories, A) depolluting or energy-producing goods, B) environmentally preferable goods, and C) raw materials produced in a sustainable manner.
3. Bound Tariffs on EG in category A) shall be reduced to zero and in category B) shall be cut (e.g., by one third). TRQs shall be negotiated on category C) goods proceeding from developing Members to incentivize the endorsement of categories A and B concessions.
4. Green technology transfers shall be encouraged among participating Members.

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Question #3

Suggest a legal/technical or institutional way to implement your textual proposal within the broader WTO framework (500 words)

The proposed non-binding declaration reaffirms the negotiation mandate and provides for a new approach to EGA negotiations with the objective of attracting additional WTO Members. One of EGA's major issues is the lack of hard incentive for developing Members to low EG tariffs.

The proposed solution yields benefits to all Members and is twofold. EGs would be split between A, B and C categories. First, A and B categories would take the form of "living" lists of goods on which all participating Members lower tariffs. Second, down-to-earth concessions need to be offered to developing Members. Therefore, category C would be the object of a Request and Offer process in exchange for EGs lists' acceptance.

To ensure the lists' relevance, a group of experts shall be created (see e.g., the SCM Committee Permanent Group of Experts). Such group would periodically recommend participating Members to add or withdraw items. Members shall ultimately decide on lists' modification through negotiations.

1. Category A would consist of depolluting or energy-producing goods (e.g., solar panels). These should be prioritized, given their significant environmental impact. Zero tariffs on those goods would primarily benefit high-income and incidentally medium-income Members.
2. Category B would consist of environmentally preferable goods that operate in a manner that causes less environmental damage (e.g., bicycles are preferable to cars and LED to regular lightbulbs). Cutting participants' tariffs (e.g., by one third) would mostly benefit medium-income and incidentally high-income Members.

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3. Category C would consist of raw materials produced in a sustainable manner (e.g., palm oil in EFTA-Indonesia CEPA). In this sector, high and medium-income Members would offer developing Members tariff-rate quota concessions in accordance with environmental considerations.

These concessions could be included at the 8-digit level in the HS system. Goods would be presumed to be produced sustainably when in accordance with recognized certifications (e.g., ISO-TC287 on wood or organic certification).

The EGA would encourage green technology transfer. A research fund could be established to help participating developing Members build green capacity.

Considering the wide variety of goods encompassed and free-riding concerns, the negotiated concessions would enter into force once a critical mass of parties is reached (e.g., 70–80% of international trade).

Tariff concessions arising from the new EGA would be extended on an MFN basis to the entire WTO Membership. This would create momentum to obtain consensus to add the EGA as a plurilateral agreement to Annex 4 WTO Agreement (Art. X.9); subject to WTO dispute settlement. If no consensus emerges, EGA concessions could still be implemented on an MFN basis through changes in tariff schedules (Art. II GATT) by Members. In any event, Members' tariff schedules can be subject to dispute settlement.

Finally, internal pressure can arise from interest groups. This initiative mitigates domestic opposition as it provides for differentiated tariff objectives depending on the type of EGs and opens the door to transition periods.

Thus, this initiative enables a triple win for developing Members, developed Members, and the environment as all concessions are made following an environmental logic.