

## **EU-Andean Sustainability Impact Assessment Final Report: BRIEFING DOCUMENT**

The EU-Andean Sustainability Impact Assessment provides an independent assessment of the likely economic, social and environmental impacts of a potential multi-party trade agreement between the European Union, its Member States, and the Andean countries of Colombia, Ecuador and Peru (Bolivia is also assessed, although not currently part of the trade agreement) using quantitative and qualitative assessment tools.

These three dimensions of sustainable trade are assessed in the report according to nine core sustainability indicators: real income, fixed capital formation, employment, biodiversity, environmental quality, natural resource stocks, poverty, equity and health and education.

Baseline conditions in the Andean countries are analysed and serve to describe the likely economic, social and environmental situation in the absence of a bilateral trade agreement between the EU and its respective partners. In the process, the major economic and social implications (including poverty, gender impacts, potential changes in wage and unemployment and adjustment costs) as well as environmental impacts are identified. The baseline scenario takes into account existing WTO commitments of each country or region under consideration.

The economic modelling method used in the SIA research employs a global, multi-regional, multi-sectoral computable general equilibrium (CGE) model to measure macroeconomic and sectoral output changes of trade liberalisation from both a modest and ambitious liberalisation scenario. Under the modest scenario, the following assumptions are employed: 90% reduction of tariffs, 50% liberalisation of services and 1% reduction of producer costs through trade facilitation measures. The ambitious liberalisation scenario assumes 97% reduction of tariffs, 75% liberalisation of services and 3% reduction of producer costs through trade facilitation measures. The model also assumes both significant preferences from the EU, including GSP Plus, in the baseline modelling, and implementation of the Doha Development Agenda tariff modalities on sensitive products by the EU.

The modelling analysis shows modest income gains for all economies in all settings and scenarios, with the biggest absolute gains occurring in the EU and Colombia, where real incomes are expected to increase by up to €4 billion and €2.8 billion respectively. In relative terms, the expected income gain is estimated to be highest for Bolivia and Ecuador, where real income is expected to increase by between 0.5 and 2 percent of GDP. The impact in the EU is only marginal, at less than 0.1 percent of GDP. On an aggregate level, real income across all Andean countries will increase by €5 billion under the ambitious scenario.

A potential EU-Andean trade agreement will have no significant effect on the EU's trade flows, while for the Andean countries imports and exports are expected to increase by between 3 to 10 percent. The effect on overall employment and wages for both skilled and unskilled labour are predicted to be minor. There are no significant changes predicted in sectoral output for the EU. The vegetables, fruits and nuts sub-sectors are expected to increase by about 10 percent in Colombia and Ecuador.

Foreign direct investment, particularly in the service sector, in Andean countries is expected to increase as a result of an investment agreement with the EU. This is supported by associated growth in domestic investment and flow of social benefits. A boost of up to 1.5 percent of gross output is attributed directly to increased foreign investment.

In terms of the economic, social and environmental sustainability impacts arising from the model, assessment of social and environmental impacts of several sectors located in rural areas are treated together in order to account for linkages and overlaps. Potentially significant impacts in the EU and Andean countries arising from a trade agreement include expansion of labour intensive agriculture, food processing and light industrial product manufacturing sectors; deforestation and reduced biodiversity as a result of predicted expansion of agriculture and timber industries; increased industrial, agricultural and mining discharges as a result of increased output in these sectors; and social conflict from expansion of mining, hydrocarbon extraction and logging activities in rural areas.

The report proposes a number of trade, cooperation and domestic policy recommendations designed to guide EU trade policy makers on how the positive and negative sustainability impacts identified can be enhanced, mitigated or reduced. The most important complementary policy measures include phased tariff reduction in individual sectors where significant adjustment costs are expected, such as the automotive and machinery and equipment sectors; including a sustainability chapter in the trade agreement; monitoring and reporting on the effects of an agreement, including European companies' compliance with corporate social responsibility in the mining, oil and gas sectors; education and technical assistance in the fields of sustainable forestry management, environmental protection, industrial restructuring and sanitary and phytosanitary controls; and cooperation and support in enhancing environmental, public utility and financial sector regulation, including specialised assistance in the field of regulatory impact assessment.

A number of consultations were conducted with a network of stakeholders during the course of the study. This was accomplished through email correspondence, phone calls, meetings, and the SIA website and newsletters; two civil society workshops in Brussels, one in January and July; and a local workshop in Lima, Peru in May 2009. Outside of consultations, data for the report was compiled through a number of sources. An extensive literature review was conducted, and a number of government and non-government databases were used to provide data for the economic modelling.

Minor limitations during execution of the Trade SIA in meeting project aims and objectives were encountered, although the extent of consultations could likely be improved with more time and more TOR-designated on-the-ground consultation workshops in the Andean countries.

Ex post analysis of the impacts of any agreement reached are advised to ensure relevant stakeholders are effectively consulted. Specific analysis should focus on steps taken to ensure that agreed upon measures designed to mitigate loss of biodiversity, deforestation and other forms of environmental degradation are effectively addressed and supported by the institutional arrangements in the respective Andean country. Attention should first be given to groups that are at a higher potential of being marginalised in the initial phases of inception, particularly indigenous groups, and ensure that their concerns are being adequately addressed.