

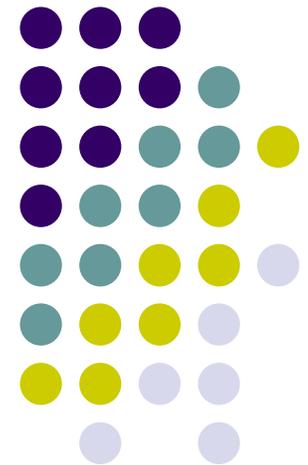
Sustainable Energy Trade Agreement:

A Look at the Details

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Introduction



- **WTO members have worked towards the Doha mandate calling for EGS market access for EGS, but like much else in the Doha Declaration, results are elusive.**
- **The first big difficulty is failure to agree on a single EGS list. The second difficulty (which interacts with the first) is that many WTO members have no interest in the EGS agenda.**
 - Some WTO members seriously protect EGS products in their home markets and have little that can compete on export markets.
- **In response , some countries have explored the option of an EGS agreement on a bilateral, plurilateral, or regional basis.**
 - e.g., talks among US, EU, Canada, Australia; discussions within APEC and the G-20; Sustainable Energy Free Trade Area (SEFTA, World Economic Forum).

Possible SETA List



- **A bilateral, plurilateral or regional agreement has also been thwarted by the task of defining EGs: mercantilism rides!**
- **A WTO report for the Committee on Trade and Environment Special Session (CTESS) lists the universe of EGs of interest to member countries (TN/TE/20, April 21, 2011).**
 - 408 tariff lines (HS 2002 six-digit level), are listed under six headings – air pollution control, renewable energy, waste management and water treatment, environmental technologies, CCS, and others.
- **We have drawn up our own short list which covers 39 EGs tariff lines at the HS six-digit level (see table 1).**
 - Our list covers 32 EGs found under the sole category of 'renewable energy' in the WTO compilation, plus six EGs that are described both as 'renewable energy' and another category, plus un-denatured ethyl alcohol (HS 220710).



Possible SETA List *(cont'd)*

- **In 2010, world imports of all 39 EGs were about \$225 billion, roughly 1.7 percent of total imports of all products.**
 - Among 39 EGs, PV cells and modules (HS 854140) were by far the largest, accounting for about 29 percent of world imports of all 39 EGs (see table 1).
- **MFN bound rates, MFN applied rates and effective applied rates range widely, but trade-weighted average tariff rates for all 39 EGs are in line with averages for industrial products.**
 - MFN bound rates range from almost zero (HS 854140, solar PV) to 45 percent (HS 220710, ethanol used for fuel); MFN applied rates range from almost zero (HS 854140) to 15 percent (HS 220710); and effective applied rates range from almost zero (HS 854140) to 11 percent (HS 220710) .

Core and Candidate Countries



- **We have identified 10 “core countries” (counting NAFTA and the EU as single countries) that seem likely to join SETA negotiations if launched and 6 “candidate countries” that hold great interest.**
 - Core countries: NAFTA, EU, Chile, Colombia, Peru, Australia, New Zealand, Singapore, Japan, and Korea
 - Candidate countries: Brazil, India, China, Indonesia, Turkey, and South Africa.
- **Several candidate countries protect the 39 products to a much higher extent than the core countries; accordingly these candidates may have less interest in the SETA concept (see table 2).**
 - Average bound tariff rates for all 39 EGs in Brazil, India, Indonesia, Turkey, and South Africa are high, but China is a notable exception.
- **Designations of core and candidate countries are illustrative. SETA sponsors should seek wide participation by WTO members.**

Tariff and Non-Tariff Barriers



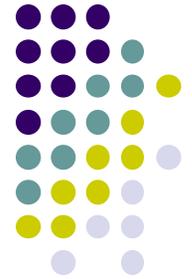
- **Several EGs in our list already have low tariffs.**
 - e.g., solar PV (HS 854140) : almost 0 percent (effectively applied rate) in many cases; wind turbines (HS850231): below or around 5 percent in most cases.
 - With respect to ethanol (HS 220710), many countries maintain high tariff rates – in some cases more than 100 percent.
- **With respect to low-tariff products, negotiating the SETA should not be difficult. But remember the trade axiom, “no pain, no gain”.**
- **Possibly the most controversial aspect of eliminating tariff barriers is the need to confine market access benefits to SETA members.**
 - For consistency with WTO obligations, this restriction would require a waiver under Annex 4 of the Marrakech Agreement (akin to the GPA).



Trade between SETA Members

- **NAFTA**: for both imports and exports, top 3 partners are EU 27, China and Japan (see table 3).
- **EU (27)**: for imports, top 3 sources are China, NAFTA, and Japan; main import commodity is PV cells and modules. For exports, the top 3 destinations are NAFTA, China, and Turkey; main export commodities are control boards, gears, and biodiesel.
- **China**: for imports, the top 3 sources are Japan, EU27 and NAFTA; main import commodities are biodiesel, recovered paper, and PV cells and modules. For exports, the top 3 destinations are EU 27, NAFTA and Japan; main export commodity is PV cells and modules.
- **China has a strong commercial interest in joining the SETA talks to eliminate tariff barriers. But China might take a wait-and-see attitude since the SETA would point to elimination of local content requirements and harmonization of standards.**

Trade between SEFT Members *(cont'd)*



- In 2010, total imports of all 39 EGs from all core and candidate countries were \$102 billion, not counting intra-NAFTA imports and intra-EU imports (see table 4).
 - “Critical mass”: taking into account intra-NAFTA and intra-EU imports, total imports of all 39 EGs between all the core and candidate countries were about \$176 billion, accounting for 78 percent of world imports of all 39 EGs.
 - The top 3 exporting countries are China, EU27, and Japan. Only China and Japan are net exporters; all others are net importers.
 - Total exports between core countries: \$36 billion; total exports from core to candidate countries: \$30 billion.
 - Candidate exports to core countries: \$34 billion; candidate exports to other candidate countries: \$3 billion.
- **Candidate countries have a commercial incentive to join SETA merely to ensure access to core markets. The commercial promise of candidate-to-candidate flows is the future, not the present.**

Conclusion



- **A short EG list can best serve as a launch pad, but once off the ground, SETA's product coverage should be enlarged.**
- **While tariff elimination for EGs should be the first priority in SETA talks, the NTB component must also be addressed, with a view to phasing out NTBs within a few years.**
- **Whether or not SETA is launched as a WTO plurilateral agreement, the concept should be embraced in TPP and other regional pacts.**