

# Quantity and Quality

## Assessment of sustainability impacts of trade agreements

Summary of a discussion held during the [Trade and Sustainability Hub](#), 3<sup>rd</sup> December 2021  
organized by the Centre for Development and Environment (CDE, University of Berne)  
and the International Institute for Sustainable Development (IISD)

### Panelists:

Joseph Francois (WTI, University of Berne); Rashmi Banga (UNCTAD); Marzia Fontana (IDS, University of Sussex); Caroline Dommen (IISD)  
Elisabeth Bürgi Bonanomi (CDE, Moderation)

## Context and Summary

The breadth and depth of today's trade agreements and the wide range of their effects pose a real challenge for assessing their potential impacts. Yet precisely their comprehensiveness makes assessment all the more necessary. A number of methodologies for assessment exist, and State practice is evolving as recognition grows of the need to respond to [distributional](#), [sustainability](#) and [social](#) impacts of trade and as new tools and approaches emerge for assessing impacts of trade on a range of policies. Criticisms have also been leveled at the *ex ante* impact assessments (IAs) carried out so far. They have frequently been carried out too late to influence negotiations. Some have been framed too narrowly and others too broadly. Stakeholder participation tends to be sub-optimal. And in many cases, the IA findings are not taken into account in the final trade agreement.

This [session](#) aimed to demonstrate that it is possible to improve our understanding of likely impacts of trade agreements on a range of sustainability and social objectives. Presenters discussed different methodological approaches to *ex ante* sustainability<sup>1</sup> assessments of trade agreements and how these may be combined in order to get optimal results. The session addressed how conventional economic modelling tools work, and gave some examples of how they can be developed to better reflect social issues. The presentations included illustrations from *ex ante* assessments of the planned trade agreement between the European Free Trade Association (EFTA) and Mercosur (EMFTA). Panelists and participants agreed that (ex ante) impact assessment should ideally include qualitative and quantitative aspects, and that governments should improve their communication about the objectives and planned contents of trade agreements.

The full recording of the session is available at <https://www.youtube.com/watch?v=YdwNO0BZL5g>

## Presentations

By way of introduction [Elisabeth Bürgi Bonanomi](#) (University of Bern Centre for Development and Environment (CDE)) recalled that methodologies exist for ex ante sustainability-related assessments, and referred to practice in the [EU](#), [Canada](#) and New Zealand. She observed that this type of assessment of trade agreements may be undertaken for different reasons. Some seek to facilitate trade outcomes that are inclusive and transparent<sup>2</sup> or that favour gender equality. Some see their role as to generate knowledge to

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<sup>1</sup> In this report, the term sustainability is used to refer to public interest impacts of trade agreements, such as impacts on the environment, biodiversity or vulnerable groups.

<sup>2</sup> UK Department of International Trade (2020) [UK-New Zealand Free Trade Agreement – The UK's Strategic Approach](#).

develop the best negotiating options<sup>3</sup> or to better understand channels through which trade or trade rules can affect social or sustainability outcomes.<sup>4</sup> Others see *ex ante* assessments as a tool for identifying possible adverse impacts with a view to taking remedial action or complementary measures to assist those who need support in adjusting to trade reforms.<sup>5</sup>

This panel was particularly topical as the Swiss government is developing a methodology for assessment of sustainability impacts of trade arrangements. In his comments, Dominik Ledergerber ([Swiss State Secretariat for Economic Affairs](#) (SECO)) referred to Switzerland's commitment, in its recently-adopted [foreign economic policy strategy](#), to undertake targeted *ex ante* and *ex post* assessments of environmental, social and economic aspects of important economic agreements. He noted that the government plans to combine qualitative and quantitative approaches for these assessments depending on the specific questions to be analysed in the context of a specific agreement.

[Joseph Francois](#) (World Trade Institute (WTI) Berne) presented a 2020 [assessment](#) of the likely environmental impacts of the EFTA-Mercosur trade agreement (EMFTA) as an illustration of a quantitative approach.<sup>6</sup> That assessment combined two quantitative methods. First, computational general equilibrium (CGE) analysis of production, trade, and investment. This linked predicted changes in activity to sustainability indicators, for instance linking trade-related changes in fuel burning or land-use to a range of emissions. The assessment then applied an integrated multi-region input output (MRIO) analysis of resource flows and sustainability impacts, which traces the impact of activities along global supply chains. Indeed, trade agreements may result in Switzerland importing more from country X, which sources raw materials from country Y, so trade between Switzerland and X causes emissions in Y to go up. Thus MRIO enables identification of where resources are produced or used and where they go to, which helps reveal whether the planned trade agreement contributes to a diversion of environmental impacts.

Francois noted that the terms of reference for this assessment of EMFTA explicitly excluded socio-economic effects. SECO had asked that the sustainability impacts of the agreement be assessed only in terms of environmental indicators. Socio-economic effects were explicitly excluded from the assessment. This contrasts with the EU approach to SIA, where social aspects are a central element.

Rashmi Banga ([UN Conference on Trade and Development](#)) commented that underlying assumptions of CGE models should always be made explicit. For instance, many such models assume perfect competition or perfect mobility of labour and capital across sectors, which is not usually the case in reality. She also pointed out that CGE models look at long term impacts (the WTI study looks at 2040), and often do not consider what happens in the shorter-term. Yet trade policy makers agree that there are short-term adjustment costs, which need to be taken into account when considering social impacts of trade.

Another issue is to be aware of the types of products that models aggregate, to avoid misleading conclusions. Banga referred to the example of "leather products" categories used in the WTI study, noting that it includes products as diverse as footwear or leather car seats. The carbon or GHG emissions are considered at activity level. If the FTA leads to increased exports of footwear uppers (that use little leather) they are included

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<sup>3</sup> Bürgi Bonanomi (2018). *Measuring Human Rights Impacts of Trade Agreements: Ideas for Improving the Methodology, Comparing the EU's Sustainability Impact Assessment Practice and Methodology With Human Rights Impact Assessment Methodology*, in: Journal of Human Rights in Practice (Oxford University Press), 9, 481-503; UN Economic Commission for Africa (UNECA) and Friedrich Ebert Stiftung (FES) (2017) [The Continental Free Trade Area \(CFTA\) in Africa – A Human Rights Perspective](#).

<sup>4</sup> Dommen (2021) [Applying the human rights framework to economic policy: Lessons from an impact assessment of services trade liberalization in Mauritius](#). 29 African Journal of International and Comparative Law; Braunschweig et al. (2014), [Owning Seeds. Accessing Food. A Human Rights Impact Assessment of UPOV 1991 in Kenya, Peru and the Philippines](#).

<sup>5</sup> See e.g. Engel et al (2021) [The Distributional Impacts of Trade : Empirical Innovations, Analytical Tools, and Policy Responses](#).

<sup>6</sup> Francois et al (2020) [Assessment of the potential environmental impacts and risks in Switzerland and the MERCOSUR States resulting from a Free Trade Agreement \(FTA\) between the EFTA States and MERCOSUR](#).

under footwear and therefore under leather products, so if the assessment measures the carbon emissions of the leather product activity it may not reflect the reality.

[Marzia Fontana](#) (Institute of Development Studies, Sussex University) recalled that a strength of CGE modelling is that it allows simulation of alternative policy options and thus help identify the optimal option. She observed that there has been a lot of progress in integrating qualitative and quantitative approaches, but there is still room for improvement. She cautioned that treating quantitative aspects separately from qualitative ones risks maintaining a false dichotomy between economic and social factors, which are deeply interlinked. Fontana stressed the usefulness of a “*mixed methods*” approach, where the qualitative and quantitative aspects are not merely used side-by-side, but are fully integrated with each other. She said that this translates into the need for quantitative economists to listen more seriously to insights from other disciplines and let these insights guide the design of quantitative survey questions, the diagnostic indicators, and decisions about how to modify the structure and assumptions of a CGE model to answer questions about distributional effects of trade policies.

As an illustration of good practice of integrating qualitative with quantitative factors, Fontana mentioned a study on how trade in the ASEAN region would affect women’s employment. This integrated quantitative aspects (how many new jobs would be created) and also qualitative ones, through disaggregating jobs not only by gender but also by occupation/skill. Assuming that women would be likely to be found more in low-skill occupations, and to have lower capacity to respond to new trade-related employment opportunities, this enabled conclusions to be drawn not just that new jobs would be created, but about the quality of these jobs. This leads to more nuanced findings than the simplistic hypothesis often heard, that trade is good for women’s employment through creating new jobs. This in turn enables attention to be paid to the wider menu of policies needed to maximize women’s gains from trade.

[Caroline Dommen](#) (Independent Researcher, and Senior Associate with IISD) spoke to ways in which a human rights (HR) approach can focus attention on important elements that existing methodologies often miss. Whilst quantitative approaches focus on the most important sectors in terms of value or volume, human rights centered methodologies focus on the most vulnerable and marginalized people. She stressed that HR can usefully inform all other kinds of impact assessment. She cited the example of how an *ex ante* HR impact assessment shone the spotlight on likely labour, gender, food security and other social aspects of the African Continental Free Trade Area<sup>7</sup> and enabled insertion of human rights-responsive elements in the text that was adopted. The HR framework offers a globally accepted legal framework for defining the scope of an assessment, as a good SIA cannot cover every likely impact of a trade agreement. In defining a limited number of areas of enquiry, applying a HR-based approach can *inter alia* show that the process of choosing the focus areas is based on an accepted set of criteria, thus avoiding accusations of arbitrariness or capture by economic or other interests.

## **Main take-aways from the discussion**

### Benefits of blending quantitative and qualitative approaches

There was general agreement that qualitative and quantitative approaches need to be blended in impact assessment, and that there is complementarity – not competition – between different methodologies. There was some discussion about whether quantitative or qualitative elements should come first. Ledergerber suggested that it would be logical to start with the quantitative model of the trade flows, and, then based on this quantitative analysis, the issues that are to be analysed can be identified and the appropriate methodology applied. Others suggested that qualitative research should inform the economic model used to quantify impacts, or, as in the human rights approach, that the initial quantitative and qualitative aspects of scoping exercise can be undertaken in parallel. Fontana stressed that whilst it is not possible to pack

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<sup>7</sup> See UNECA and FES (2017), note 3 above.

everything into an economic model, a HR lens can be applied to change or highlight the assumptions in the model and to give more attention to distributional issues.

[Marianne Kettunen](#) described the EU methodology for [assessing biodiversity impacts of trade agreements](#), which shows the value of combining qualitative and quantitative assessment methodologies. She described how the methodology first applies a qualitative framework, to undertake the screening and scoping phases of assessment and to identify priority impacts for which quantitative modelling would be used. At that stage quantitative modelling chains should be applied. Once that is done, the results can be brought back to the quality framework, to interpret the former results. Kettunen indicated the many synergies and benefits of using human rights and social impact methodologies when undertaking biodiversity impact assessment of trade agreements. She noted that carrying out such assessments *ex ante* helps identify what kinds of safeguards need to be put into place in parallel with the trade agreement.

#### Timing

The timing of the assessment emerged as an important consideration. Francois noted that doing the assessment later in the negotiations results in more accurate findings (as the assessment benefits from hindsight) but stressed that it makes sense to undertake assessments in real time, in parallel to the negotiations, to ascertain what the optimal negotiating outcomes are. An assessment of sustainability impacts should ideally be done before the negotiations start, in order to help frame the negotiating parameters. Once the parameters and content of the agreement are framed, ideally one should go back and look again at the likely impacts. In his view, IA is less useful once the negotiating outcome is known. He cautioned against waiting for topics of concern to emerge and gave the example of the assumption that EMFTA would lead to increased imports of beef into Switzerland, which gave rise to public criticism of the agreement there.

#### Purpose

The question of timing ties in with the question of the purpose of IA. Buergi Bonanomi recalled that if the aim is really to improve the positive impacts of a trade agreement and ensure that it does not have adverse sustainability effects – by seeking optimal regulatory options – then the IA should be done early in the process. If the aim is just to find out what types of impacts the agreement on the table might have and to design the most suitable complementary measures then IA can be done later. However, the sustainability agenda calls on governments to select the former approach.

#### Iterative process

In addition to IA itself being an iterative process, several participants noted the value of carrying out *ex post* assessment of existing trade agreements to better understand channels through which these agreements affect sustainability, which in turn will improve the selection of topics and the design of future *ex ante* assessments.

#### Choice and design of methodology

The reason for which an impact assessment is undertaken is likely to affect the choice of methodology, as well as the detail, scope and timing of the exercise. For this reason, the purpose must be made explicit at the outset.

Several participants noted the importance of paying particular attention to those stakeholders who might lose out from the trade agreement, when designing the IA. Buergi Bonanomi said that that the HR framework can help frame the questions very precisely at the beginning, and that having an interdisciplinary team to approach impact assessments can lead to the most useful and most widely accepted results.

#### Interdisciplinarity of IA

Most *ex ante* assessments of trade agreements so far have been carried out by quite conventional economists. A number of the panelists underlined the importance of including diverse skill sets and backgrounds on teams undertaking IAs. Such mixed teams can better understand and take on board what emerges from stakeholder consultations.

### Consultation and information-sharing

Participants noted the value of information-gathering and consultations. Banga affirmed that an inclusive process is necessary given that everyone is ultimately affected by a trade agreement. She pointed to the need for broad consultations including media sensitization. Consultations are valuable for designing both the qualitative and quantitative aspects of IA. Francois observed that the information that goes into the economic models is 90% of their value. EU experience has shown that consultations can help us identify those interests that economists or trade policy officials may not have thought of. Those interests may not be of huge economic importance but they do matter for other reasons and so consultations offer a chance to identify them.

Public consultations imply that trade officials listen to the public, but they also require civil society to listen. Ledergerber said that “it’s a two-way street: if you want to have an informed discussion about trade agreements, you have to inform the public about what you’re doing in trade agreements and how they work.” The other speakers concurred. Ledergerber added that whilst there must be a degree of confidentiality in trade negotiations, Switzerland can do better in terms of transparency. He recalled that the new Swiss [foreign economic policy strategy](#) commits to improve communication and consultation with stakeholders about the challenges, objectives and instruments of Switzerland’s foreign economic policy.

Several speakers gave examples of how IAs had allayed misunderstandings about the content of a trade agreement that had caused vocal opposition to the agreement. Dommen referred to this being the case in Mauritius regarding various aspects of the Trade in Services Agreement. Francois referred to the situation in Switzerland regarding the impact of EMFTA on beef imports, saying that it would have made sense to let the public know early on what the content of the agreement would be, as it would have helped people focus on the real issues and support the public policy debate. Dommen recalled how any policy choice is going to involve a trade-off, in which some people will benefit and some will not. It is important that these trade-offs and the reasons for them be made explicit. Bürgi Bonanomi added that, according to the human rights framework, vulnerable people should never be those that lose out.<sup>8</sup> IA can and should also contribute to dialogue and help get away from assumptions about impacts of a trade agreement so as to be able to actually focus on the facts.

### Data

Data – or the lack thereof – is recognized as a limitation to many types of assessment. For instance, we lack gender-disaggregated data on a range of indicators, which is a challenge for quantitative assessment. Whilst we need to have some sense of who is likely to gain and who is likely to lose, lack of data is not an excuse for not assessing likely sustainability impacts of trade agreements. There are many proxies we can use for quantitative evaluation and qualitative approaches can provide valuable information. The latter also allows subjective values to be expressed, which is important in the political process. Existing lack of data and knowledge about the channels through which trade and trade rules can affect sustainability-related outcomes further reaffirms the need for ex post assessments.

### Other points

In response to a participant’s question about how the introduction of Carbon Border Adjustment Mechanism (CBAMs) could be integrated into environmental IAs, Francois said that it is possible to include this type of border taxes into the IA models he presented. He noted that it would also be useful to assess the impact of the carbon border taxes, to better understand how those are going to work.

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<sup>8</sup> UN Human Rights Council (2011). *Guiding Principles on Human Rights Impact Assessments of Trade and Investment Agreements*. Report of the Special Rapporteur on the Right to Food, Olivier de Schutter. A/HRC/19/59/Add.5; Bürgi Bonanomi, Musselli. 2019. *HRIA of trade agreements involving agriculture: Enabling innovative trade options that protect human rights*, in: Götzmann Nora (ed.), Handbook on Human Rights Impact Assessment (Edward Elgar Publishing).

Another participant asked whether we have any sense of how well *ex ante* assessments predicted the future, given that we now have many years' experience with *ex ante* impact assessments. He wondered whether we need some sort of *ex post* assessment of *ex ante* assessments. Francois noted that *ex post* assessments of economic effects show that for trade itself we have gravity literature and econometrics that tells us what the volumes are and confirm that the *ex ante* models do pretty well in predicting the economic effects.

On a slightly different point, he referred to a European University Institute project that looked *ex post* at non-trade policy objectives in trade agreements. It looked at indicators of outcomes, mapping these on to provisions in agreements to see whether we can identify effects or not. The project concluded that sustainability-related provisions in trade agreements have not had much impact broadly speaking, in terms of economic, environmental or other sustainability outcomes.

[Rémi Willemin](#) (University of Zürich) invited panel participants to take part in an interdisciplinary research project underway at the University of Zürich. This project has identified *challenges in current environmental impact assessment practice*, and is working to overcome these challenges. Beyond developing more accurate and policy-relevant IA methodologies, the project aims to build an interdisciplinary network of scientists to assess impacts of trade agreements on biodiversity and ecosystems. He invited inputs from others on how to improve methodologies. Project findings will be presented at the World Biodiversity Forum on 27 June 2022.

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<sup>9</sup> Report text finalized in consultation with the panelists and commentators.