

Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Association Agreement with Chile

(Contract No. Sl2.779300)

Presentation of draft final report

Civil society dialogue meeting
Brussels, 10 April 2019



bkp DEVELOPMENT
RESEARCH & CONSULTING

Structure of presentation

1. Consultations summary
2. Global analysis: main findings and recommendations
 - a. Economic analysis (incl. SMEs)
 - b. Social analysis (incl. consumers, women)
 - c. Human rights analysis
 - d. Environmental analysis
3. Sector analysis and case studies: main findings and recommendations

1. Consultations summary

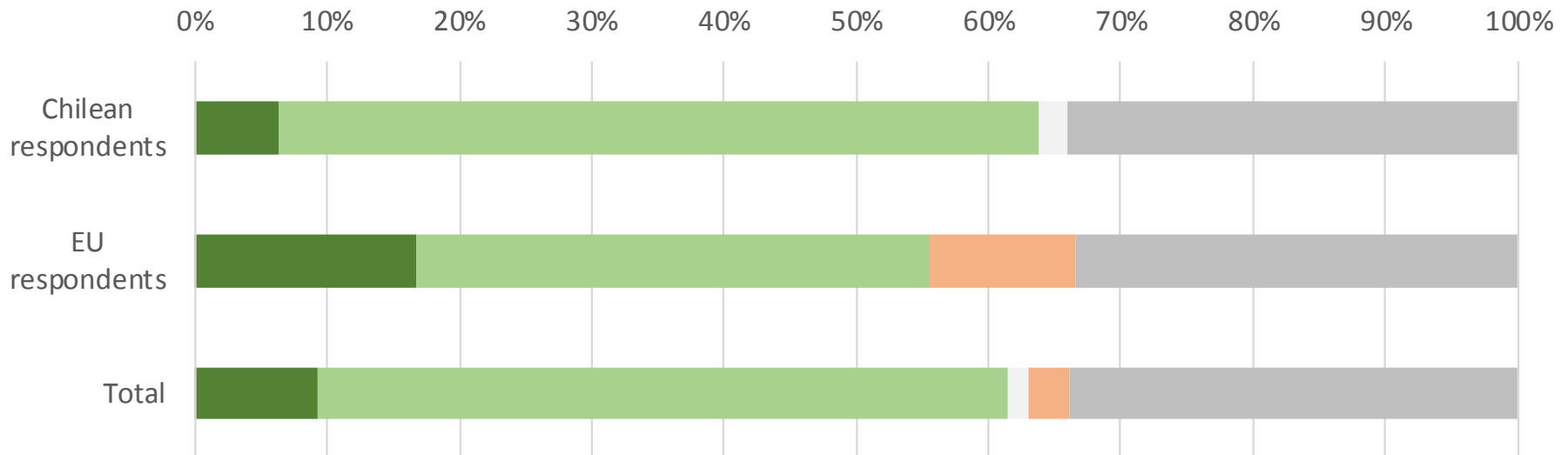
Summary of consultation activities

- Continuous consultations met with overall **moderate interest by stakeholders**
 - Website in EN and ES: hits: $\approx 5,000$ (EN) + $\approx 1,000$ (ES)
 - Newsletters to ≈ 250 (Chile) + ≈ 460 (EU) stakeholders
 - Twitter: ≈ 70 tweets, ≈ 60 followers
 - 3 online surveys (general, consumers, SMEs) + human rights survey: ≈ 80 responses
 - 5 workshops in Chile (inception, main, 3 regional), ≈ 120 participants
 - ≈ 30 (Chile) + ≈ 20 (EU) face-to-face meetings (physical/skype)
 - 4 CSD meetings + meetings with Commission

Summary of stakeholder feedback (1)

- Most stakeholders (90%) know about the existing Agreement, and have a favourable view of it (50% +, 8% –)
- Most stakeholders (80%) are aware of modernisation negotiations
- Summary view:

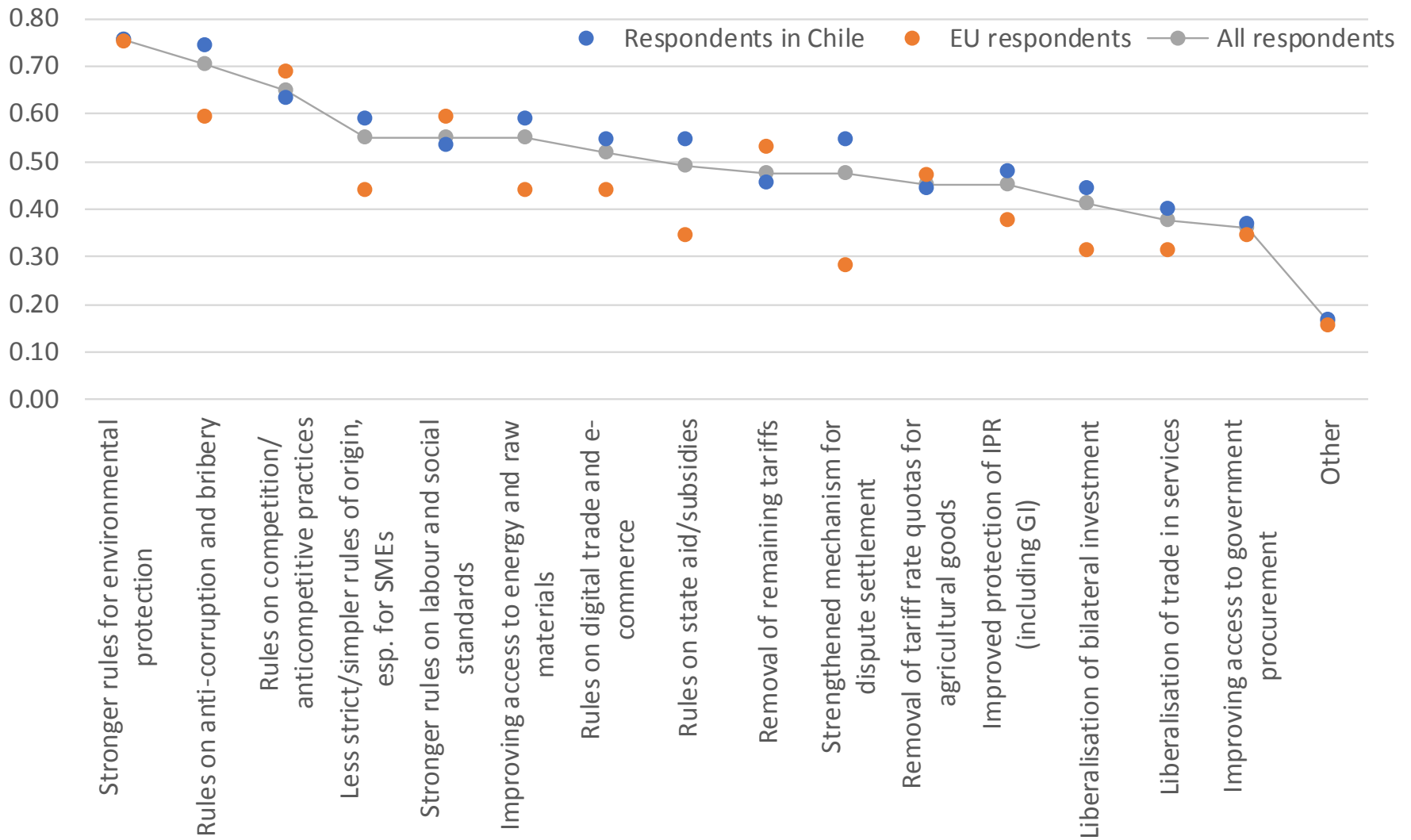
Overall effect of modernised Agreement in general



Summary of stakeholder feedback (2)

- Net positive economic effect expected from modernisation
 - Chilean stakeholders more positive than EU ones
 - Strongest positive effects on: EU FDI in Chile, access for EU firms to Chile public procurement; EU services exports to Chile
 - Most limited effects on: level of corruption; SMEs in Chile; governance
- Social effects in Chile (in EU: very limited effects expected):
 - Positive views in Chile, esp. consumers, women, disabled persons;
 - More critical views in EU, esp. forced labour, access to health care, access to education
- Human rights effects in Chile (in EU: very limited effects expected):
 - Positive views in Chile: 60% expect positive effect;
 - More critical views in EU (but few responses – 3 out of 9 expect neg. effect)
- Environmental effects in Chile (in EU: very limited effects expected):
 - Positive views in Chile, esp. renewable energy, waste, transport & EE;
 - More critical views in EU, esp. land use, air quality, natural resource expl.

Stakeholder suggestions for negotiations



2. Global analysis: main findings and recommendations

CGE Model Results: Scenarios and Impacts

Assumptions	Conservative	Ambitious
Tariffs	Remove all except EU sugar, bovine and other meats	Remove all
NTBs goods	Reduce by 5% in Chile	Reduce by 10% in Chile
NTBs services	Reduce trade costs of Chile's services imports from EU by 1%	Reduce trade costs of Chile's services imports from EU by 3%; vice versa by 1%

	EU		Chile	
	Conservative	Ambitious	Conservative	Ambitious
Major Macroeconomic Indicators				
Welfare (EUR millions)	269	712	369	529
Real GDP (% change)	0.001	0.002	0.084	0.168
Trade Impacts				
Bilateral Exports (EUR millions)	1,917	4,186	199	324
Bilateral Exports (% change)	9.75	21.29	1.40	2.28
Total Exports (% change)	0.011	0.024	0.059	0.120
Terms of Trade (% change)	0.003	0.007	0.030	0.016
Factor Markets				
Real Wages Unskilled Labour (% change)	0.003	0.006	0.235	0.498
Real Wages Skilled Labour (% change)	0.003	0.006	0.146	0.325

Note: USD converted to EUR at 1 EUR = 1.1095 USD, as per European Commission (2017e)

Source: Calculated by authors based on CGE simulation results provided by DG Trade.

Economic analysis: Main findings (1)

- **Sectoral output impacts:** generally small scale, raising no sustainability concerns. Impacts in Chile slightly larger than in EU – but largest negative impacts are in relatively small sectors of the economy, implying **minimal adjustment difficulties**.
- **NTBs:** room for liberalisation in Chile in trade facilitation (customs brokerage) and services (courier and telecoms, and improved bindings) – **would benefit SMEs**
- **Public procurement:** some scope for improvement based on improved transparency in Chile, especially for SMEs and in green procurement – some **improvements for SMEs possible**
- **IPRs:** some room for improved coverage (especially digital, plant varieties); **no economic sustainability issues** – but see HR analysis
- **Digital Trade:** Facilitation of e-commerce; cautious approach to commitments on data flow and localization; ongoing dialogue – **appropriate approach**

Economic analysis: Main findings (2)

- **SMEs:**
 - Chile: gains for SMEs in key services sectors depend on higher level of ambition; Chile's goods export gains are in sectors that are SME-intensive
 - EU: **gains for SMEs also are stronger in the ambitious scenario**
- **Value Chain Integration:** sectors that stand to benefit from the FTA also feature bilateral value chain integration, mostly in industrial sectors – **net positive effect expected**
- **Third Parties:** generally small impacts **without sustainability concerns**
 - EU Outermost Regions – although some FTA impacts affect competing sectors (e.g., Madeira wine), impacts are likely to be negligible
 - LDCs face some trade diversion, but scale is very small
 - FTA programmes – EU-Mercosur could impact on gains in some areas (e.g., avocados and grapes); other FTA relationships limited impact
- **RoO administrative capacity: no concerns**
- **Good regulatory practices: positive impact** of provisions on transparency, anti-corruption

Economic analysis: main recommendations

Area	Recommendation
Trade liberalisation	<ul style="list-style-type: none">• To enhance social acceptability of remaining liberalisation (e.g. in dairy), consider gradual liberalisation and/or safeguard measures
Public procurement	<ul style="list-style-type: none">• Strengthen exchange of statistics and information regarding public procurement.• Incorporate enhanced cooperation on public works contracts, on self-declaration of the businesses' financial status and abilities, and on equivalence of titles of qualified suppliers.• Include specific commitments to develop, establish, and maintain the automatic system for the translation and publication of summary procurement notices in English.• Refer to the promotion of green procurement, addressing corruption, and promoting the use of electronic procurement.• Annex to Public Procurement Chapter, Section B on Market Access Commitments should address some of the existing barriers through a wider set of companies and sectors open for public procurement.
Anti-corruption	<ul style="list-style-type: none">• Expand obligations on the Parties to further UNCAC provisions (following EU-Mexico);• Incorporate the provisions in EU-Mexico on whistle-blower protection and transparency registers.

Social analysis: main findings

- **Employment:** limited impacts for Chile and marginal for the EU
- **Real wages:** limited increase in Chile (slightly more for unskilled workers and women; reduction in inequality), marginal in the EU
- **Women:** mixed results for workers (job growth in men-dominated sectors), limited positive for female entrepreneurs and traders
- **Consumers:** limited positive impact (marginal price increase, diversity of goods and services, high standards to be maintained)
- **Vulnerable groups, poverty, inequality:** very limited impact (wage and welfare increase, marginal price increase in the long-term)
- **Jobs quality and rights at work:** limited positive impact
- **Informal economy:** no impact or limited positive one
- **CSR practices, decent work in supply chains:** limited positive
- **Public policies & social protection:** very limited, if any

Social analysis: main recommendations

- Need to monitor situation in sectors where job reduction may occur, provision of training and social security assistance for workers
- Gradual liberalisation to support small producers, seeking to raise sector's competitiveness based on strategies and action plans
- Dialogue and cooperation to seize opportunities and address challenges resulting from technological and organisational change
- Seek to agree robust provisions on the right to regulate, upholding levels of protection, quality and safety of goods and services
- Facilitating registration of enterprises, advice for potential exporters and included into value chains, encouraging formal employment
- Preserving job quality improvements achieved by domestic initiatives
- Mainstreaming gender equality into trade disciplines; provision of training, networking opportunities and advisory services for women

Human rights analysis: main findings



Right to health

EU: no impact

Chile: overall - no significant impact

Chile:

Lithium mining – indigenous peoples
'zones of sacrifice' – possible cumulative impact

access to essential medicines



Right to water

EU: no impact

Chile: possible cumulative impact

Chile:

>10 years of droughts
legislation on right to water

Increase in lithium mining as a result of modernisation



Right to food

EU: no impact

Chile: overall - no significant impact

Chile:

food labelling



Right to work

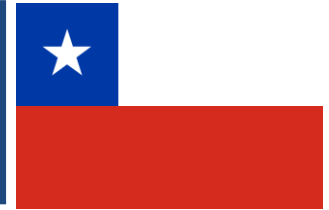
EU/Chile: mixed minor impact overall

TSD Chapter

Human rights analysis: main recommendations



- strengthen regulatory capacity;
- establish multi-faceted monitoring mechanism;
- ensure holistic health care discussion with all stakeholders



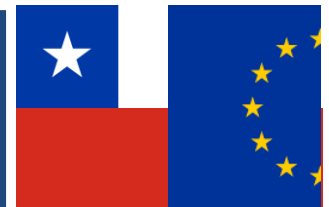
- amend legislation recognising right to water as a human right



- include labelling into the text of the Agreement



- include provisions on monitoring and ex-post evaluation of the Agreement at regular intervals of time – implementation /assessment of the Agreement on the human rights impact



Environmental analysis: main findings

- Modelling input includes only climate change. Yet other environmental impacts (f.ex. local air pollution, waste, water quality) could be expected.
 - Quantitative results show small impacts for EU and Chile. But qualitative analysis shows potential significant impacts at local level
 - Model assumes linear relation economic output and CO₂ impacts. But structural economic changes (f.ex. Chilean agricultural activities moving up the value chain) may impact energy intensity and/or CO₂ emissions
 - Data limitations and relatively new institutional framework in Chile currently may limit understanding and uptake of new policies
- Analysis focused on helping to address environmental issues by providing suggestions for specific clauses in TSD chapter

Environmental analysis: main effects

Most potential direct impacts of FTA modernisation

- Increase in energy consumption, GHG emissions, land use and local water issues from increased agricultural activities - in Chile
- Increase in energy use and transport emissions from higher economic activities and trade – both in Chile and EU

Modernised FTA can also help address other environmental issues such as:

- Strengthen regulation and uptake of policies to achieve the Aichi targets on biodiversity – in EU and Chile
- Increase protection of marine ecosystems and promotion of responsible and sustainable aquaculture – in Chile
- Expand import of technical solutions that help further growth of renewable energy and low-carbon production - in Chile and EU
- Improve monitoring and reporting of local air pollution – in Chile and EU

Environmental analysis: main recommendations

Inclusion of clauses in TSD chapter that:

- Confirm the need for and opportunities of **specific low-carbon and energy-efficient activities** (f.ex. low-carbon transport, improvement agricultural yield)
- Confirm the need for **specific targets and commitment on implementation of specific policies and regulations** (f.ex. energy efficiency law including sectoral targets)
- Provide specific provisions on **improved data collection** (f.ex. waste, land use and biodiversity), monitoring and reporting (f.ex. air pollution, waste risk) and research exchange (f.ex. electrification, dewatering technologies)

**3. Sector analysis and
case studies:
main findings and
recommendations**

Overview of sector and case studies

Sector analyses

- Dairy products
- Mining
- Construction industry
- Tourism and hospitality services
- Communication and business services
- Wholesale and retail trade

Case studies

- Olive oil value chain
- Salmon farming
- Lithium batteries value chain
- Renewable energy
- Competition
- Subsidies and state aid

Selected findings & recommendations: Sectors

- **Findings:** Generally, very low but positive economic impact, and limited environmental, social & human rights effects at sector/value chain level
- **Recommendations:**
 - Negotiations: Potential of the modernised Agreement to address any potential issues in chapters and provisions on TSD, trade & gender, and energy and raw materials, e.g.
 - Construction & energy efficiency/green building codes
 - Mining and conduct of EIAs, local system for dialogue
 - Gradual liberalisation
 - Flanking measures:
 - Monitor and engage in domestic and bilateral dialogue on changes in work patterns, environmental issues
 - Provide adjustment support in Chile for sectors where job losses are expected (training, skills development, social protection)

Selected findings & recommendations: Case studies (1)

- **Olive oil:** no impact in EU, positive economic & social impact in Chile, but increasing water pressure.
 - ⇒ Negs: ensure that modernised Agreement does not aggravate existing problems with respect to water use/and right to water
- **Salmon farming:** very limited effect of modernised FTA (already liberalized). However, strong stakeholder concerns
 - ⇒ Negs: include specific provisions on sustainable salmon farming, e.g. by containing a clause in which Chile agreed to increase the share of ASC (or other) certified farms, and EU to actively promote sustainable consumption
- **Lithium value chain:** no notable impact of FTA on lithium mining (already liberalised)
 - ⇒ Recommendations see mining

Selected findings & recommendations: Case studies (2)

- **Renewable energy:** modernized FTA could facilitate (with overall benefits resulting), but potential negative local impact to be considered
 - ⇒ encourage high level of CSR of companies working in RE projects to avoid negative impacts of growth in this sector on worker's rights and the rights of indigenous populations
- **Antitrust & mergers:** negligible impact
- **Subsidies & state aid:** EU proposal is WTO+: wider coverage; stronger reporting; bilateral consultations mechanism; conditions on certain types of subsidies

Cross-cutting recommendation

Monitoring & institutional set-up of Agreement, and civil society dialogue

- Strengthen mechanisms to implement, monitor and enforce measures related to good governance and transparency in the Agreement:
- Ensure effective and regular monitoring by parliaments and non-state actors/civil society, including a civil society advisory group or committee for each Party (with members from its own civil society representing all pillars of sustainable development).
- Expand mandate of civil society participation to allow for activities on its own initiative regarding the complete scope of the modernised Agreement.
- Reflect Agreement's scope in institutional design of civil society participation, e.g. by allowing for sub-committees on technical matters and/or by widening the scope of civil society representatives in the monitoring bodies of the modernised Agreement.



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