

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 interim report

Civil society dialogue meeting
Brussels, 12 November 2018



bkp DEVELOPMENT
RESEARCH & CONSULTING

Structure of presentation

1. Introduction and overview of work undertaken

Q&A

2. Key findings in interim report

- a. Economic analysis
- b. Social analysis
- c. Human rights analysis
- d. Environmental analysis
- e. Sector and case studies

Q&A

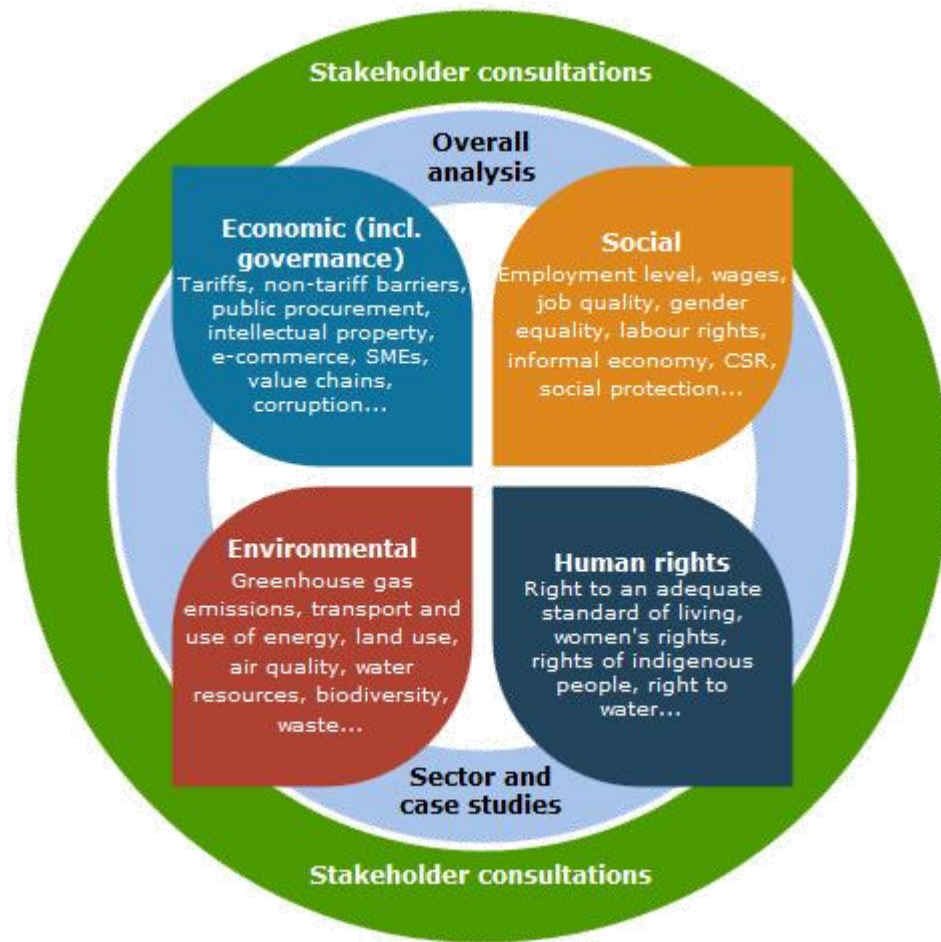
3. Study schedule/time plan and next steps

Q&A

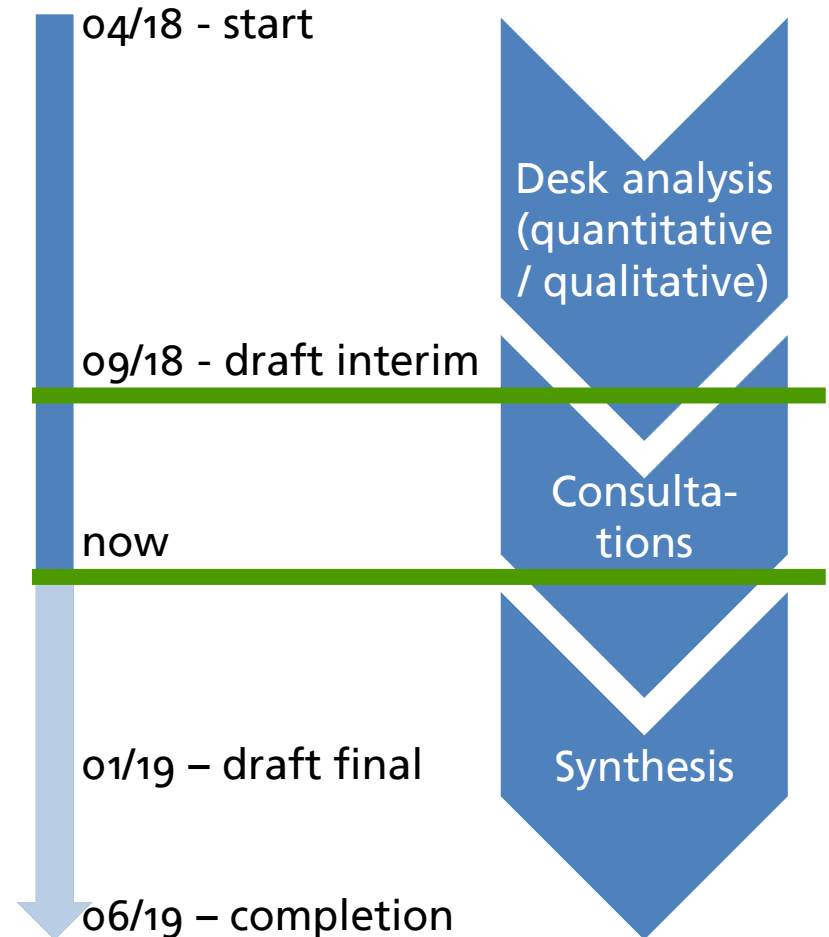
1. Introduction and overview of work undertaken

SIA scope and overall approach

SIA scope:



Overall status:



Consultation activities (1)

■ Pillar 1: Electronic communication

- Website: EN + ES, with all outputs, meeting info, etc.
- Twitter: regular tweets (≈ 45 to date) – LinkedIn less frequent
- Email-Newsletters in EN (≈ 350 recipients) + ES (≈ 200) at critical points (4 so far)
- *Remaining: continuous updating*

■ Pillar 2: Interviews and surveys

- Online surveys launched July, extended to 30 November 2018: general, consumer issues, business & SMEs
- Separate surveys on human rights issues ongoing
- Bilateral consultations (face-to-face & remote): Chile: ≈ 30 ; EU: ≈ 10
- *Remaining: further interviews, analysis of inputs received*

Consultation activities (2)

■ Pillar 3: CSD meetings in Brussels

- Draft inception report: 04 July 2018
- Draft interim report: today
- *Remaining: Draft final report (Feb-March 2019)*

■ Pillar 4: SIA workshops in Chile

- Inception workshop: 31 July 2018
- Main workshop: 27 September 2018
- Regional workshop Iquique: 09 November 2018
- *Remaining: 2 regional workshops – Valdivia, Valparaíso*

■ Pillar 5: ISG meetings

- Kick-off: 26 April 2018; draft inception report: 04 July 2018; draft interim report: today
- *Remaining: Draft final report (Feb-March 2019)*

Consultation activities - issues

- Overall: **limited interest by stakeholders**
 - Website hits: $\approx 2,000$ (EN) + ≈ 350 (ES)
 - Twitter: ≈ 50 followers
 - Survey responses (across 3 surveys): 22 (online) + 10-15 (paper)
 - Low response rate to direct contacts
 - Limited no. of registrations for CSD meetings: today 34
- Potential reasons (based on stakeholder feedback):
 - Generally high level of satisfaction with existing Agreement
 - Anticipated low impact of Agreement modernisation
 - Limited knowledge of issues specific to the modernisation
- Mitigation & lessons:
 - Extensive direct contacts (email, phone, at conferences)
 - Further simplification of tools to be considered

2a. Economic Analysis

Level of Liberalization Ambition

- Tariffs:
 - The conservative scenario eliminates all remaining bilateral tariffs except EU tariffs facing Chilean sugar, bovine and other meats
 - The ambitious scenario eliminates all tariffs in bilateral trade
- Non-tariff barriers in goods trade:
 - The conservative scenario eliminates 5% of the goods NTBs in Chile.
 - The ambitious scenario eliminates 10% of the goods NTBs in Chile.
- Services barriers:
 - The conservative scenario reduces trade costs for Chile's imports of services from the EU by 1%.
 - The ambitious scenario reduces trade costs for Chile's imports of services from the EU by 3% and also reduces trade costs for EU imports from Chile by 1%.

CGE Model Results: Macroeconomic Impacts

	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.

CGE Results: Sectoral Impacts (EU Exports)

- Top export sectors for the EU are industrial products:
 - machinery exports (EUR 700 million or by 17%)
 - motor vehicles and transport equipment (EUR 435 million, 12%)
 - chemicals, rubber and plastic (EUR 139 million, 8%),
 - oil (EUR 116 million, 23%), and
 - wood and paper products (EUR 113 million, 16%).
- The leading services sector is transportation services (EUR 68 million, 2.3%);
- Industrial goods gains are roughly double these in the ambitious scenario (reflects NTB level of ambition)
- Services gains are almost triple the size of the conservative scenario (also reflects NTB level of ambition)

CGE Results: Sectoral Impacts (Chile Exports)

- Chile makes export gains to the EU mainly in agricultural products:
 - Vegetables, fruits and nuts (EUR 82 million; 6.9%),
 - Beverages and tobacco (EUR 61 million, 7.2%),
 - Other food products (EUR 43 million, 7.2%),
 - Oilseeds, vegetables oils and fats (EUR 31 million, 92%).
- Exports under the ambitious scenario are almost the same in these sectors as in the conservative scenario.
- Chile's services sectors make modest gains in the ambitious scenario, led by transportation services (EUR 58 million, or 4.2%).

Main findings on the Major Issues - I

- **Macro Impacts:** Sectoral output impacts generally follow the trade impacts; small scale of trade impacts translate into small production impacts, raising no sustainability concerns.
 - Impact on Chile at the sectoral level are larger than in the EU; however, larger impacts are positive and the largest negative impacts are in relatively small sectors of the economy, implying minimal adjustment difficulties.
- **NTB analysis:** room for liberalisation in Chile in trade facilitation (price band; customs brokerage) and services (courier and telecoms, and improved bindings)
- **Public procurement:** some scope for improvement based on improved transparency in Chile, especially for SMEs and in green procurement
- **IPRs:** some room for improved coverage (especially digital, plant varieties); issues related to GIs and pharmaceuticals not clear as yet

Main findings on the Major Issues - II

- **Digital Trade:** Facilitation of e-commerce; cautious approach to commitments on data flow and localization
- **SMEs:**
 - Chile: gains for SMEs in key sectors (recreational, communication and business and transport services) 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
- **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 programs – EU-Mercosur could impact on gains in some areas (e.g., avocados and grapes); other FTA relationships limited impact

2b. Social Analysis

Preliminary findings

- **Employment:** limited impacts for Chile and marginal for the EU
 - **Ch:** Potential job creation in sectors including vegetable oils, fruits and vegetables, fishing, beverages and tobacco and construction.
 - **Ch:** Potential limited reduction or slower job growth e.g. in oil, gas and coal extraction, machinery and motor vehicles.
 - **EU:** Limited increase in oil, machinery and motor vehicles. Limited reduction in vegetable oils, and fruits and vegetables.
- **Real wages:** limited increase in Chile, marginal in the EU
 - **Ch:** Wages of unskilled workers likely to increase slightly more than those of skilled workers. A small reduction in inequality.
 - **Ch:** Wages for women will increase marginally more than those for men. The changes are too limited to reduce gender wage gap.
 - **EU:** Marginal changes. Existing wage gaps will remain.

Preliminary findings

- **Women:** mixed results for workers, limited positive for others
 - Limited job growth in sectors more important for men.
 - Increase in output in sectors where women-led enterprises operate (limited in Chile, marginal in the EU).
 - Export increase in products sold by women-led enterprises. Price increase in export. Potential higher income for female exporters.
- **Consumers:** limited positive impact
 - Marginal price increase in the long-term. Wage increase.
 - A larger diversity of goods and services available.
 - Expectation that high standards will be maintained.
- **Vulnerable groups, poverty, inequality:** very limited impact
 - Marginal price increase in the long-term, potentially for food products and services. Wage increase for unskilled workers.
 - Estimated overall welfare increase in the long-term.

Preliminary findings

- **Jobs quality and rights at work:** limited positive impact
 - Positive changes driven by domestic factors, e.g. new laws and non-legislative initiatives, and international cooperation.
 - Supporting role of the new TSD chapter.
- **Public policies & social protection:** analysis at the next stage.
- **Informal economy:** no impact or limited positive one
 - Using increased trade flows to encourage move from informal to formal economy, e.g. export support for SMEs.
 - Domestic measures, e.g. facilitated registration of enterprises and payment of taxes and social security contributions, training.
- **CSR practices, decent work in supply chains:** limited positive
 - Domestic support for „race to the top“. Promoting good practices through TSD chapter, investment and supply chains.

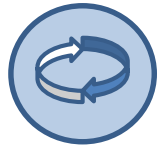
2c. Human Rights Analysis

Screening and scoping findings

Trade measure	Potentially affected human rights/issues	Kind of impact (direct/indirect)	Degree of impact (major/minor)	Potential impact (++, (+), (0), (-), (--))	Potentially affected population group
Liberalisation of tariffs for remaining goods	R to an adequate standard of living	Direct	Minor	(+) and (-)	Chile/EU (marginally)
	R to work	Direct	Minor	(+) and (-)	Chile/EU (marginally)
	R to health	Indirect	Minor	(+) and (-)	Chile
	R to food	Indirect/direct	Minor	(+) and (-)	Chile
	R to adequate housing	Indirect	Minor	(+) and (-)	Chile
	R to social security	Indirect	Minor	(+) and (-)	Chile
	R to education	Indirect	Minor	(+) and (-)	Chile
Facilitation of trade and investment in the areas of energy and raw materials	R to an adequate standard of living	Indirect	Minor	(+) and (-)	Chile/EU
	Government right to regulate	Direct	Minor	(+) and (-)	Chile
	Indigenous peoples' rights	Direct	Depends	Depends	Chile
	R to a clean environment	Direct	Minor	Depends	Chile/EU
Remaining service liberalisation	R to privacy and protection of personal data	Indirect	Minor	(+) and (-)	Chile
	R to access information	Indirect	Minor	(+) and (-)	Chile
Digital trade	R to privacy and protection of personal data	Direct	Minor	(+) and (-)	Chile
	R to access information	Direct	Minor	(+) and (-)	Chile
	Online privacy	Direct	Minor	(+) and (-)	Chile
Reduction of NTMs: TBT	R to health	Indirect	Minor	(+) and (-)	Chile
	R to food	Indirect	Minor	(+) and (-)	Chile/EU
	R to clean environment	Indirect	Minor	(+) and (-)	Chile
	R to an adequate standard of living	Indirect	Minor	(+) and (-)	Chile
	R to work	Indirect	Minor	(+) and (-)	Chile/EU

See report for a complete overview of the screening

Quantitative analysis findings



Overall analysis

- Based on CGE modelling results: **limited human rights impacts overall both for Chile and the EU**
 - Highlights:
 1. marginal positive effects on the R to an adequate standard of living and R to work for unskilled workers in Chile (due to higher increase in wages for unskilled workers);
 2. marginal positive effects on the gender pay gap but insufficient to change the balance;



Sector specific results

- Minor human rights impacts for:
 - R to water, indigenous peoples rights, R to an adequate standard of living, R to work, labour rights, women's rights (in sector and case studies)

Preliminary findings from in-depth analysis



Right to health

- Slightly more trade in (alcoholic) beverages and tobacco vs. more trade in environmental goods/use of renewable energy
- Marginal effect on access to essential medicines (90% WHO essential medicines not impacted)
- Access to other medicines: higher prices but better treatment?



Right to food

- Labelling (increased trade in unhealthy products if not regulated domestically)? Not affected
- Effects from tariff liberalisation in sectors where tariffs still matter – some vegetables, oilseeds, dairy



Right to work

- Overall: economic gains – also employment, wages
- Sector effects mixed (depend on direction of change)
- TSD Chapter: upward change in labour standards & levels of protection
- Trade and Gender Chapter: stronger on equal opportunities

2d. Environmental Analysis

Main observations on climate change, transport and energy

Environmental Issue	Main observations situation in Chile
1. Greenhouse gas emissions	<ul style="list-style-type: none"> • GHG emissions increase rapidly. NDC target on GHG intensity, no absolute target. High share target depends on FDI. • High focus on ambitious energy policy. P&Ms for other sectors scattered • Modernised FTA expected to result in shift of production and bilateral trade. This is impacting GHG emissions.
2a. Transport	<ul style="list-style-type: none"> • Continued growth activities & emissions • Good quality infra and modal shift important for economic and social development, and for improving environmental sustainability • Very low rail network density while ambitious target for modal shift road to rail >> achievement very uncertain • Modernised FTA could among others support: strengthening fuel quality standards, improving transport policy framework, increase FDI in transport infrastructure
2b. Use of Energy	<ul style="list-style-type: none"> • Chile urgently needs EE Law (currently discussed) and mainstreaming EE in sectoral policies (buildings, industry, transport) • Opportunities among others exist in enhancing opportunities for FDI in renewable energy, changes in procurement (e.g. by using more strict EE standards), in ESCO activities and increased trade in more energy efficient technologies and services

Main observations air quality and land use

Environmental Issue	Main observations situation in Chile
3. Air quality	<ul style="list-style-type: none">• Challenge in Chile (and EU); high costs of health and premature deaths• On avg modernised FTA is unlikely to have significant impact; however significant differences possible between regions and cities• Opportunities exist for strengthening cooperation, eg. on improvement of local standards, monitoring and enforcement.• Recommendation: include air quality benefits in energy, transport and climate policies; enhanced uptake of improved building regulations• Also promote technology transfer and capacity building for low-carbon technologies (eg. electric vehicles or low-carbon building constructions)
4. Land use (incl. soil quality)	<ul style="list-style-type: none">• Early conclusions confirmed that land use changes are likely insignificant. Additional assessment needed to confirm agricultural production efficiency improvement can ensure increased production without increased land use• Impact modernised FTA likely insignificant at national level. However, local increase in agricultural production could have significant impacts• Can production efficiency improvements can ensure that increased local production does not impact land use?• Recommendation: include special attention to forestry in trade and sustainable development chapter. Reconfirming Paris Agreement commitments require Chile to step up on achieving its planned expansion of the forest area, including strengthening of the regulatory framework

Main observations biodiversity, water and waste

Environmental Issue	Main observations situation in Chile
5. Biodiversity	<ul style="list-style-type: none"> • Intense pressure on biological diversity resulting from (potential) land use changes, fishing, mining and urban development • Data quality is insufficient for detailed quantitative analysis • Case studies salmon farming & olive oil farming identify high local impact
6. Water quality & resources	<ul style="list-style-type: none"> • Impact modernised FTA likely insignificant at <u>national</u> level, but can be high at <u>local</u> level. Expected increase in among others agricultural production and mining risks to increase <u>local</u> water stress • Situation aggravated by slow progress in construction of water reservoirs and treatment plants • Regulatory issues: high uncertainty legislative & regulatory framework at national level; increase needed in secondary water quality standards • Recommended attention: ability of agricultural production and mining to lower water intensity of production as well as to reduce spills
7. Waste & waste management	<ul style="list-style-type: none"> • Tailing (waste from mining) is one of largest environmental issues • Recommendation: improve regulation. Eg. a) location-based standards incl. land and water use, b) tailing responsibility firm also after mine closure • MSW: Significant changes in policy framework are expected to increase recycling and improve waste management. • Recommendations: a) ensure that improved waste management and control will be sufficient to balance projected production growth, b) focus policy on control waste from construction sector

2e. Sector and Case Studies

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

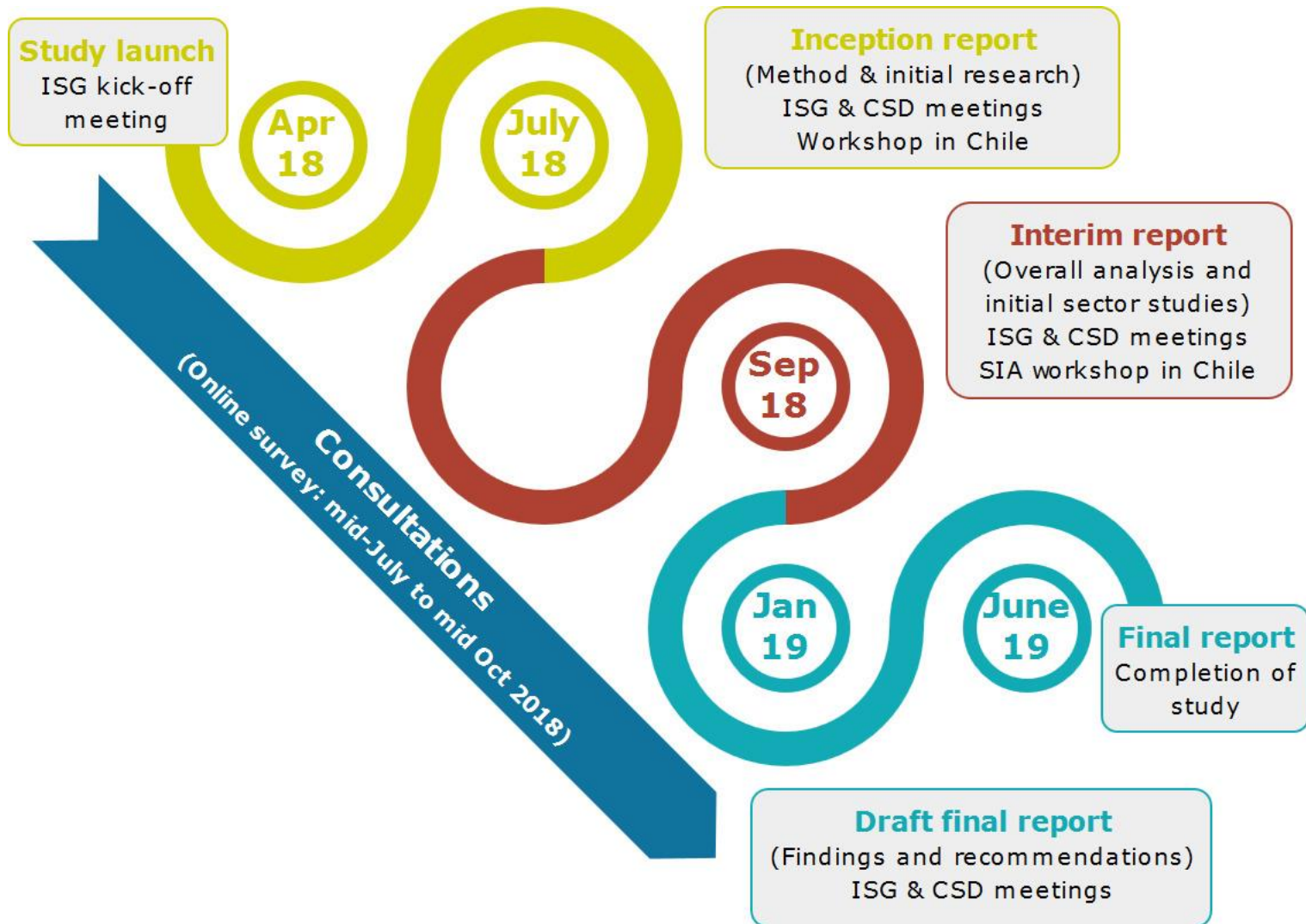
- Olive oil value chain
 - Salmon farming
 - Lithium batteries value chain
 - Renewable energy
 - Rural communities
 - Women
- (under preparation:
- Competition
 - Subsidies and state aid)

Highlights of preliminary findings

- Generally, very low but positive economic impact at sector/value chain level
- Some environmental, social & human rights issues, e.g.:
 - Disproportionate increase in GHG emissions in dairy, services
 - Limited negative employment effects in some services sectors (but increase in wages, slight reduction in wage inequality b/w skilled and unskilled labour)
- Very limited effect of modernised FTA on olive oil, salmon, lithium
- Potential of the modernised Agreement to address these issues in the chapters on TSD, trade & gender, and energy and raw materials

3. Study schedule and next steps

Overall schedule



Next steps

- **Completion of main consultation activities: early Dec 2018**
 - Online survey (closes 30 Nov 2018)
 - Remaining regional workshops Chile
 - Remaining interviews in EU and Chile
- **Analytical work: 24 Dec 2018**
 - Preparation of remaining case studies
 - Complementary research for overall and sector analysis
 - Analysis of inputs from consultations
 - Incorporation of consultations into analysis
- **Draft final report: Jan/Feb 2019**
 - Preparation of draft report – presentational aspects/editing
 - Review by Commission & publication
- **CSD meeting: Feb/March 2019**

Stay in touch!



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