



## EU Trade Sustainability Impact Assessments: Revisiting the Consultation Process<sup>1</sup>

Bernard Hoekman (EUI and CEPR)  
Hugo Rojas-Romagosa (World Trade Institute, University of Bern)

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*Trade sustainability impact assessments (SIAs) are used by the European Commission to inform policymakers on their potential effects and engage with stakeholders. A trade SIA has two elements: a model-based quantitative analysis of likely economic impacts of a trade agreement and a complementary consultation process. Both elements include a focus on a broad range of non-trade objectives ranging from sustainable development to human rights. This brief draws on RESPECT research and argues that current approaches can be adapted to provide better guidance to policymakers on what stakeholders regard as priority non-trade issues, making the consultation process a more effective input into the design of trade cooperation. Inclusion of closed ended questions on a broad range of non-trade policy objectives with scaled responses, complemented by deliberative polling of a representative sample of survey respondents, can identify a small set of priority non-trade issues and views on the policy measures needed to address them most effectively.*

The Treaty of Lisbon calls for European Union (EU) trade and investment policy to support and promote the Union's values and standards relating to human rights, labor rights, the environment and sustainable development. There are two basic aspects of EU efforts to implement an external trade policy that satisfies the prescription to use trade to pursue non-trade policy objectives (NTPOs). The first is ex ante: determining the design and substance of policy interventions to maximize the prospects of achieving NTPOs efficiently. The second is ex post: associated with implementation of agreements, complementary actions (e.g., technical assistance and development aid), and monitoring and evaluation – assessment of the extent to which goals are achieved.

The main ex ante tool used by the EU to determine the potential impacts of proposed trade agreements is the trade sustainability impact assessment (SIA). A trade SIA has two elements: a quantitative analysis of the potential economic effects of a trade agreement on European and partner country economic activities and consumer welfare, and a complementary consultation process (CP) with stakeholders to inform the trade negotiating team of issues and concerns that should be considered in a potential agreement. RESPECT research – Rojas-Romagosa (2020) and Francois, Hoekman and Rojas-Romagosa (2021) – discuss the SIA process and options to address critiques of the 'blueprint' approach implied by the standard template sustainable development chapter of EU trade agreements. They conclude that SIAs do too little to identify issues that are more (most) important to stakeholders in the EU and partner

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countries and argue for greater use of surveys that serve as an input into deliberative polling mechanism to identify a small set of priority issues of concern in each trade negotiation context. Focusing attention on specific NTPOs where a trade agreement could potentially have a positive impact would not only help inform the content and design of agreements but help identify where complementary instruments and measures are needed, increasing the coherence and effectiveness of EU external cooperation.

### ***SIA and associated consultations***

There will be winners and losers from any trade agreement. Assessing the distributional consequences of a trade agreement is a core task of the SIA model-based analysis of the potential effects of an agreement. Identifying groups that may confront significant adjustment costs should inform the substantive design of an agreement and the need for flanking measures. This is also an important function of the consultation process, which provides a platform for stakeholders to express concerns regarding possible negative effects of a trade agreement.

Three issues arise: (i) ensuring that the CP involves and engages with a representative sample of stakeholders; (ii) weighing the views and comments expressed during the CP by participants; and (ii) analyzing how changes in trade and the provisions of a trade agreement may (can) impact on different groups in society and specific NTPOs that were brought forward in the consultations. The CP arguably does not do a very good job on these three fronts when it comes to NTPOs. It is not clear that in practice participants in consultations are representative. Even if they are, there is no explicit and transparent weighting mechanism that rank orders views and identifies a set of priority areas for action. SIAs are required to include analysis of human rights, social, and environmental issues in addition to economic (sectoral) effects. By including these topics in the SIA, it is implicitly assumed that trade agreements can affect in a meaningful way the non-trade variables in a particular country. This is a (very) strong assumption for many of the issue areas included. Positions taken in the CP may reflect perceptions of the direct economic impacts of an agreement on specific groups and economic activities that are unlikely to have a robust empirical basis.

### ***Revisiting the design of consultation surveys***

A survey with closed ended questions can provide useful information on which issues are deemed most important by stakeholders and should be prioritized. Such an approach was applied in the RESPECT project to assess practitioners' views on the efficacy on linking trade to NTPOs and on complementary (or alternative) instruments that should be considered in pursuit of NTPOs (Fiorini et al. 2019; Yildirim et al. 2021; Bondi, Fiorini and Hoekman, 2021). EU SIA consultations utilize a survey instrument that solicits responses to a range of questions, including non-trade issues and related outcomes. In principle this permits the collection of information on the priorities accorded to a range of sustainability/human rights concerns for specific trading partners. However, in practice it does not because the survey instrument asks whether respondents believe a trade agreement will impact on a long list of variables contained under the heading of 'social issues, including labor rights', human rights and the environment. Encouraging stakeholders to exercise voice without an attempt to identify what concerns or issues are most salient from an economic perspective and how trade agreements could affect them substantially reduces the value of the CP as an input into analysis and deliberations.

To provide guidance on how and where to relax the ‘blueprint’ one-size-fits-all approach reflected in the ‘standard’ chapter on sustainable development in EU trade agreements, surveys should be re-designed to include closed ended, scaled questions on the specific NTPOs included in trade agreements as well as questions on the preferred instruments to pursue them. The results of a closed ended survey that permits rank ordering of views on the priority to be accorded to the NTPOs included in trade agreements would be of value to the EC and counterpart governments in and of itself, significantly enhancing the quality of information provided by SIA surveys.

### ***Deliberative polling as an element of consultation processes***

Consultation surveys could be used as a sampling frame for a process of deliberation among a representative group of stakeholders who are brought together to discuss trade-NTPO issues in small groups facilitated by trained moderators, informed by accessible expert briefing materials that provide balanced information on the range of salient issues, including economic effects and non-economic concerns. The goal would be to solicit the group's views – through a poll – on priorities and policy instruments needed to improve outcomes in the chosen areas. Such deliberative polling would address a weakness of the current consultation process – the lack of a mechanism to weight (rank order) the views and concerns expressed by a wide range of stakeholders.

It is often pointed out in the academic literature that establishing whether the participants in consultations are representative of the constituency they claim to speak for is not straightforward. This problem can be attenuated by using the set of respondents to the surveys as the sampling frame for a consultation that takes the form of a deliberative poll. This would help offset the bias that is inherent – and unavoidable – with the approach that is used currently where specialized and self-interested groups are asked to participate in an open-ended consultation process in which they are encouraged and free to provide their views.

For deliberative polling to be effective a robust information base is required, including preliminary analysis of the potential results of a trade agreement. The latter can be supplied by the SIA, conditional on the quality and extent of available data and methodological constraints discussed previously regarding assessments of how trade reform may impact on NTPOs. This potential constraint could be addressed in part by synthesizing the experience with implementation of trade agreements and associated ex post evaluations, as well as the academic literature analyzing the relationship between trade and trade reforms on both economic and non-trade issues. The information problem can also be addressed in part through engagement with international organizations with specialized expertise and country presence/knowledge.

### ***Multi-stakeholder value chain-based deliberations***

Another, complementary, approach is to conceptualize the CP as a multi-stakeholder initiative, organized around specific value chains. This can be an alternative means of identifying a representative set of stakeholders with a common interest in an economic activity that may be affected by trade policy reforms. Organizing deliberations around several value chains that are economically significant would ensure that both upstream (e.g., raw materials, parts, components) and downstream (e.g., distribution) activities are considered, potentially helping to identify elements – including the location, composition of the associated workforce, etc. – of the production processes of goods and services that are most salient from

a non-trade perspective. Such a value chain approach to consultation can also be valuable in providing information and feedback on progress made and areas that require attention. Value chain focused deliberative mechanisms may have added salience given the stated intention of the EU to develop mandatory standards for internal operation of international supply chains of EU headquartered companies.

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