

Public Survey on the Green Goods Initiative

Contribution of VCI

Section 1: Questions for all stakeholders

Question 1: What are your general views on the negotiations to liberalise trade in green goods and services?

The German chemical industry has been very critical to the idea to liberalise trade in green goods for a very long time. We consider the proposal to be conceptually flawed, to lead to discrimination between products and to be unpractical. It is impossible to define green goods adequately, non-discriminatorily, fairly and unbureaucratically.

The aim for such an agreement will be harmful for the Doha Round, harmful for the multilateral trading system and will achieve at best little for the environment, international trade and development. The distribution of environmentally sound and resource efficient technologies should be achieved by meaningful overall tariff liberalization/elimination for all goods, along global value chains.

The conceptual error: The multilateral trading system accepts customs tariffs, for one purpose only: the protection of the domestic industry. Tariffs incidentally also benefit domestic budgets. Notwithstanding the acceptance of tariffs the WTO encourages its members to reduce or eventually eliminate tariffs through multilateral trade or bilateral free trade negotiations. The tariff system is neutral to ethical considerations. There are no “good” or “bad” products, hence there are no tariffs which would be either desirable or undesirable for social or environmental reasons. The fundamental conceptual error introduced by the proposal lies in the implicit introduction of the notion of “good” and “bad” products. If tariffs are used to promote ethical considerations then tariffs should (logically) be increased or at least be maintained for all products which do not conform to these considerations. Such a proposal would run counter to the liberalisation idea of the WTO notwithstanding the notion of sustainable development to which the WTO adheres.

Question 3: What types of goods and services do you think should be covered by the green goods initiative? (e.g. any specific sector)

The question shows the difficulty: how to define a green good? Whether one product is - from an environmental perspective - preferable to another one depends on a complex life cycle analysis, technical and scientific progress and – even more problematic – on subjective value judgments which will change over time. The data necessary for such an approach can neither be compiled adequately for all products traded internationally and they can and will not be interpreted objectively.

Since no objective definition is possible a list approach is suggested. Herein lies our problem, however. List approaches are inherently discriminatory to the products of the chemical industry. A correct approach would make the inclusion of materials and intermediate goods necessary. This would however inflate the list and would lead to other problems – e.g. products chosen not as products but for their environmental application and would, again, lead to discrimination.

The chemical industry produces quite a lot of inputs which are necessary to promote environmental and sustainability goals. No wind-turbine, no solar panel, no ‘green’ tyres or new electronic energy efficient devices can be produced without chemical inputs; let alone the chemical industry’s contribution to electro-mobility, more energy efficient cars and insulation in general. Yet what do we find on the proposed lists, only environmental end-products and no chemicals. Should the chemical industry therefore propose to include all products contained in chapters 28 to 39 of the HS system as green goods? We would rather go for an overall elimination of industrial tariffs than for a discriminatory one.

Question 4: What factors should the EU take into account in the development of its proposal for a list of environmental goods (e.g. trade volume, environmental use of products, customs control, customs classification, etc.)? Please explain your answer.

We acknowledge the Davos initiative. It builds on a list approach that is arbitrary and discriminatory. To give an example, assume you chose the CO₂ foot print as an environmental factor for bioethanol. Bioethanol made from sugar cane has a much better CO₂ foot print than that of bioethanol made from sugar beets or corn. Which of the bioethanols should be retained in the list? And should bioethanol be considered as an environmental good at all given its potential adverse impacts on food supplies? If you make a distinction using tariff-unrelated factors (e.g. CO₂ foot print), you would have to split the existing tariff line for bioethanol in different categories. Such a proposal would lead to trade complication and not to trade liberalisation and should therefore be avoided!

If the Davos initiative is inevitable we would suggest to admit its arbitrariness and its discriminatory aspects and not to try to develop factors and criteria which will render the approach even more complicated. The initiative should limit itself to a list containing a few products, clearly identified by HS tariff codes. It should not contain any exceptions or ex-outs and the tariffs should be eliminated altogether.

The more factors you take into account the more complicated the discussion will get leading eventually to an impasse. Although we oppose the initiative we would suggest that the Davos initiative should be simple in its arbitrariness. The objective is to liberalise trade!

Question 5: Environmental goods can be described as goods that can positively and directly contribute to environmental protection, climate action, green growth and sustainable development. Do you agree with this statement? Please explain your answer

The German chemical industry disagrees with this statement. There is no black and white with respect to these four targets mentioned above. A product emitting less CO₂ might need more water or toxic substances for its production or vice versa. It might also be based on intermediates with high energy needs or environmental degradation in their production process. For example, wind turbines help to reduce CO₂-emissions, but the carbon fibres needed to build them consume a substantial amount of energy. In addition to this, wind turbines need approximately 1 ton of rare earths. The extraction of rare earths can cause considerable environmental damages. Life cycles and recyclability make the analysis even more complex.

While sustainable development undoubtedly should be a central goal on a global level, and free trade will contribute to it, it is not trade policy that is the decisive means to achieve it. Instead, trade policy should aim at free trade, which will lead to an efficient division of labour, also taking resource endowment and efficiency into account as well as a fast distribution of technical progress, also for environmental technologies. Such trade policy has to be combined with other policies aiming at environmental production and efficient resource use.

Question 6: Environmental goods should not be classed as 'environmental' depending on how they were produced, in part because of the difficulty for Customs to distinguish such goods and the lack of globally agreed criteria. What is your view on this?

We would agree.

If the EU wants to open the Pandora box of environmental protectionism (which VCI rejects for obvious reasons) she should introduce non-product-related process and production methods (NPRPPMs) into the green goods approach. How would a customs officer be able to distinguish between identical products? How should the tariff line distinguish between identical products? Any attempt to introduce the idea of NPRPPMs into the green goods initiative is bound to fail. It would render the system even more complex, in particular the discussion on which goods to choose. May we respectfully remind the Commission that the green goods negotiations of the DDA last for 13 years already with no end in sight. Therefore, production methods are a recipe for disaster!

Question 7: Where do you see the greatest potential for positive environmental impact arising from this initiative (sector or country/region)?

We see hardly any potential for a positive environmental benefit. This is especially the case if intermediate products are excluded. If the OECD and the WTO are right that modern trade policies should promote global value chains one could see a positive environmental impact by a combination of trade liberalization for all industrial products combined with global environmental regulations but not by an initiative which liberalizes only some arbitrarily chosen environmental end-products.

Question 8: Do you think the green goods initiative should include a review mechanism to allow updating of the list of environmental goods and to better reflect changes in technology? Please explain your answer. If you think it should, do you have views on the how the mechanism could work?

This question also demonstrates the problems we have with the initiative.

A review mechanism would institutionalise the shortcomings of a tariffs approach to green goods and would multiply the harm it does to the international trading system.

From a trade policy point of view, the idea of a review mechanism shows the absurdity of the initiative. Assume a product is not considered to be a technological “front runner” any longer? Would one have to re-introduce the tariff again? Again we support trade liberalization but not trade complication. The re-introduction of tariffs is legally possible, yet it is costly.

The question can also be seen as referring to new editions of products only. Our experiences with review mechanisms in the area of pharmaceutical intermediates are quite negative. They are complicated and overly bureaucratic and, inevitably, lead to fights between competing businesses.

As stated above, if the decision to start the negotiations a green goods agreement is taken, we clearly recommend a short list without a review process.

Question 9: Do you have views concerning a future possible dispute resolution of the green goods initiative? If so please elaborate.

No views.

Question 10: Are there any other issues related to trade in environmental goods and services that are not mentioned above and on which you would like to provide your views?

Yes.

If you replied "yes", please specify

A successful outcome of the Doha Round with a meaningful liberalisation result in NAMA is the best option for multilateral trade policy to foster global value chains – global value chains in general as well as global value chains for the production of environmental goods.

Such an outcome has to be the overarching goal for the EU’s trade policy. We make a link between the green goods initiative and a positive NAMA result. Only if the two are achieved in parallel will the discriminatory aspect of green goods initiative be absorbed. A stand-alone green goods initiative is contrary to the goal of fostering global value chain and is not conducive to the development goal of the DDA, since most of the products covered are end-products which are not produced in developing countries. If trade along global value chains were liberalized then developing countries could at

least benefit, in part, from the green goods initiative if they liberalise their tariffs for input and other materials needed to produce environmental end-goods.

A green goods agreement may never be the substitute for a meaningful NAMA tariff liberalization in the DDA.

Section 2: Questions for business or their associations

Question 1: What kinds of environmental goods do you export? (multiple replies are possible)

All.

If you replied "other", please specify

The products of the chemical industry enable all the above markets and technologies.

Question 2: What are your five top non-EU export markets for environmental goods and/or related services? (please specify and rank

The German chemical industry - from large companies to SMEs - produces a wide range of products and is not willing to discriminate between them by size of the market. All chemical products are produced to fulfil specific demands and needs of our customers.

Therefore, the German chemical industry was always aiming at a sectoral tariff elimination agreement covering products from HS 28 to 39.

Question 4: To which other countries do you export environmental goods and /or services? (please specify, and rank them)

We do not think that a ranking of countries makes much sense.

If a plurilateral green goods agreement is concluded, it is of absolute importance that the MFN principle applies. In order to avoid free-riders, the members of the agreement must have an interest to reach a critical mass.

Question 6: From which non-EU markets do you import environmental goods and/or services? (please specify top five and rank)

As environmental goods are not to be defined properly and adequately, we see no foundation for answering this question.

In general, the chemical industry aims at producing efficiently, omitting the waste of resources, sourcing globally its input materials and machinery, and implementing resource efficient production technologies if economically feasible.

Question 7: From which of the following WTO members participating in the green goods initiative do you import environmental goods and /or services? Please rank them.

See answer to question 6.

Question 8: From which other countries do you import environmental goods and /or services? (please specify, and rank them)

See answer to question 6.

Question 9: Please specify products that, in your view, should be covered by the green goods initiative (please specify HS codes, description, environmental rationale).

In principle, the list of products has to be lean and should be based on clearly defined HS codes without exceptions.

If chemicals are to be nominated for the list, it will have to be all chemicals contained in HS chapters 28 to 39 without exceptions.

Question 10: Are there any products that, in your view, should not be covered by the green goods initiative? (please specify)

As an association representing the German chemical industry we refuse to make any distinctions between the products produced by our members. This question is also a clear demonstration why to reject the whole concept of a green goods agreement. You invite us to discriminate between the products of our members.

Question 11: If you export environmental goods to third countries with which the EU has concluded Free Trade Agreements (FTA), do you utilise preferential tariffs under those FTAs?

Yes.

If you replied "yes, always" please specify which country

For the German chemical industry it is the purpose of a free trade agreement that all tariffs are eliminated. Our exports should therefore benefit from the preferential tariff rate. In order for them to benefit it is of utmost importance that the rules of origin are simple and IT-based. Our experiences with some of the FTAs negotiated by the EU are not always positive as far as simple rules of origin are concerned.

Question 14: Which types of non-tariff barriers do you think should be reduced through the green goods initiative as a matter of priority (max 3)?

A green goods agreement, if inevitable, should be limited to tariffs.

Non-tariffs barriers are an important issue for a forthcoming WTO agenda.

Question 26: Any other views on constraints or opportunities for trade in environmental goods and services?

We are astonished that the Commission has recently accepted these negotiations and has not awaited the results of this public consultation.

The German chemical industry is highly sceptical and worried with respect to a plurilateral agreement aiming at liberalising non-definable so-called environmental goods.

Furthermore, see answer to

Section 1, question 1

Section 1, question 2

Section 1, question 6

Section 1, questions 10

Section 2, question 2