Report on
Trade, Environment, and Sustainability Impact Assessment

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Preface

The Concerted Action on Trade and Environment (CAT&E) is designed to provide an opportunity for the large and growing community of European researchers working on trade and environment issues to meet regularly, to discuss research hypotheses and methods, to review results, and to develop new lines of co-operative research. CAT&E will launch a dialogue with policy makers at all levels. It aims to create a process that can document the progress of research and generate new research impulses in this area. It seeks to advance the resolution of current conflicts between trade and environment.

The information obtained in the course of the Concerted Action is annually summarised in state of the art reports and bibliographies in a fashion that is useful to both researchers and policy makers. These reports serve as an input to CAT&E’s annual members’ meetings and open conferences. To structure the reporting and discussions, the following themes have been identified initially (in random order; the theme of the present paper is underlined):

- Subsidies
- Government Procurement
- Investment
- TBT, SPS, and Labelling
- Trade and Development
- Trade, Environment and Human Rights
- Trade in Commodities
- Implementation Procedures
- Trade in Services
- Intellectual Property Rights
- Trade and Multilateral Environmental Agreements
- Dispute Settlement
- Transparency and Participation
- Sustainability Impact Assessment of Trade Agreements
- European Trade Policy Development
- Trade and Agriculture
- Trade, Environment and Labour
- Trade, Environment and Public Health
- Science and Precaution
- Trade and Environment in the Architecture of International Governance.
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1. Introduction and scope of the paper

Among the CAT-E themes, the Sustainability Impact Assessment (SIA) of trade agreements has a unique position insofar as the SA itself represents a form of analysis of the relationship between trade and (among other topics) the environment as well as trade and development. This paper will have the following structure: First, an overview of different approaches and their evolution will be given. Next, the central part of the paper will present the essential elements of the SIA methodology. This part will mainly be descriptive, but it will also mention some discussion points. Finally, some core questions for further research will be identified.

2. Definition and context

Sustainability impact assessments of trade agreements have been developed by different actors and called by a variety of names, and not all of them cover the same range of issues. Thus, it is virtually impossible to give an exact definition of what a SIA is. Many approaches concentrate on environmental impacts rather than aiming at including all aspects of sustainable development. Nevertheless, they provide valuable methodological steps towards a more comprehensive assessment approach. Environmental reviews and assessments of trade policy measures can be classified as an application of Strategic Environmental Assessment (SEA); in Canada, they are explicitly treated as such. Following initial review in the US and in Canada, the OECD suggested a methodology for environmental reviews of trade policies and agreements (OECD 1994). This provided an important reference basis for the ensuing approaches used by governmental institutions and NGOs.

When it became effective in 1994, The NAFTA agreement was unique insofar as it came along with the creation its own environmental partnership agreement, the North American Agreement on Environmental Cooperation (NAAEC), as well as the conclusion of a side agreement on labour. Within the NAAEC, the North American Commission for Environmental Cooperation (CEC, or NACEC) is the body commissioned with assessing the environmental effects of the agreement. Since its creation in 1994, the CEC has provided detailed case studies as well as a general methodological framework (CEC 1999a; CEC 1999b). The relatively strong environmental component of NAFTA is related to the special situation at the time when the agreement was created, as environmental concerns were of great political importance, especially in the USA. In the context of the upcoming Free Trade Area of the Americas (FTAA), similar provisions are under discussion. However, the pure environmental impetus and commitment in the negotiations is currently fairly weak, while proposals for a more comprehensive sustainable development approach seem to have better chances.

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1 Strategic Environmental Assessments (SEA) are applied ex-ante to assess the impacts of major policy initiatives, laws, and projects on the environment. It complements the environmental impact assessment (EIA), which is conducted at the project level. In the EU, SEAs are regulated by the European Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment.
In the USA and Canada, environmental assessments have been made mandatory in most multilateral and bilateral trade negotiations. Both countries have conducted ex-post environmental reviews of trade agreements since the early 1990s (NAFTA, Uruguay Round), but the legal foundations for comprehensive ex-ante assessments were only set up in both countries in 1999\(^1\). In the following years, frameworks were developed in order to provide more detailed guidance (DFAIT 2001; DFAIT 2002; USTR 2000).

For Canadian Environmental Assessments (EAs) of trade agreements, two major objectives were defined: (1) to assist Canadian negotiators integrate environmental considerations into the negotiating process, (2) to address public concerns by documenting how environmental factors are being considered during trade negotiations (DFAIT 2001).

For the US, EO 13141 defines Environmental Reviews as a “tool to help identify potential environmental effects of trade agreements” and “to help facilitate consideration of appropriate responses” to them in the course of the negotiation process, or through other means, in order to ensure that trade agreements contribute to the broader goal of sustainable development.

The European Union characterises itself as “the only ‘national’ institution which assesses the impact of trade policy on all three pillars of sustainability at a strategic level and outside its frontiers” (European Commission 2002, p. 5). DG Trade started commissioning studies on SIAs of trade negotiations in 1999, and committed itself to carry out SIAs for all major multilateral and bilateral trade negotiations. These assessments are seen as part of the EU commitment to pursue the objective of sustainable development (as introduced in Art. 2 of the Amsterdam Treaty) and to integrate environmental considerations in all other policy areas (Art. 6 of the Amsterdam Treaty), responding in turn to longstanding calls from NGOs and environmental experts. SIAs can be regarded as one of the fields of the SEA, and can also as be seen as a part of general efforts in the EU to optimise governance and administrative processes by streamlining the various existing impact assessment procedures.\(^3\) Therefore, SIAs should not only be conducted for trade agreements, but for all major political decisions and programmes\(^2\) as well. In fact, in recent years, SIAs have also been applied outside the field of trade negotiations in order to assess ex-ante the sustainability impacts of virtually all policy initiatives.

International and non-governmental organisations played an important role not only in conducting studies on environmental impacts, but also on assessing the social impacts of trade measures (Madeley 2000; Reimer 2002). Widening the scope from a merely environmental assessment, the United Nations Environment Programme (UNEP) developed a manual for the “integrated assessment of trade-related policies” (UNEP 2001) comprising economic, environmental, and social impacts, or the “linkages between trade, the environment and development”. UNEP itself commissioned numerous sectoral country case studies (Abaza and Jha 2002). Non-governmental organisations proposed elements of a methodology for the sustainability assessment of trade agreements (WWF 1998; WWF 1999)

\(^1\) For the USA: Executive Order (EO) 13141 “Environmental Review of Trade Agreements”; for Canada: Cabinet Directive on Environmental Assessment of Policy, Plan and Program Proposals.


\(^3\) As an important reference point, see Presidency Conclusions, Göteborg European Council, 15 and 16 June 2001.
and took an active part in commenting on the European Commission’s SIA methodology (Oxfam and WWF 2002; Richardson 2000).

The most comprehensive SIA undertaken by the EU is the SIA of proposed WTO negotiations, mainly undertaken by the IDPM at Manchester University, which has been accompanied by the development of a corresponding methodology (Kirkpatrick and Lee 1999; Kirkpatrick et al. 2002; Kirkpatrick et al. 1999; Maltais et al. 2002). In addition, numerous studies on bilateral and regional agreements have been done (PLANISTAT 2002; PwC 2003a; PwC 2003b), some of them with institutions from bilateral trading partners of the EU such as Chile.

In contrast to the official SIAs conducted in Europe and Northern America, assessments for other regions, such as South America and Asia, were usually developed by academic institutions, NGOs, multilateral agencies (such as UNEP and UNCTAD), and also by trading partner governments.

In the WTO context, no commitment exists as of yet to make SIAs mandatory, to unify SIA procedures, or to undertake a co-ordinated effort for SIAs at the WTO level. The Doha Ministerial Declaration mentions Environmental Assessments in its preamble: “We take note of the efforts by members to conduct national environmental assessments of trade policies on a voluntary basis.” Furthermore, in its section on Trade and the Environment, the declaration states that the Member governments “encourage that expertise and experience be shared with Members wishing to perform reviews at the national level”. The discussions about the negotiations in the Committee for Trade and Environment and Trade and Development according to para. 51 of the Doha Declaration could be seen as a first timid step towards an internationalisation of SIAs (Gehring 2005).

3. Survey of methodological approaches

This section aims at (1) identifying common elements of an SIA, and (2) discussing the differences that the various approaches exhibit in these elements.

3.1. Timing and linkage to the negotiation process

While the environmental reviews carried out by the NACEC are ex-post evaluations of NAFTA, and numerous case studies in other contexts provide empirical evidence on trade-environment or trade-poverty relationships, the important common feature of EU SIA and the recent US and Canadian provisions for environmental reviews / environmental assessments is that ex-ante assessments shall take place while new trade agreements are still being negotiated. A key question is if the SIA process is appropriately aligned with the negotiating process, so that its findings have a real chance of being taken into account in the negotiations. One major criticism of the current EU SIA process by NGOs has been that the studies came too late to have a real influence, or that the negotiation timetable was too tight to leave a chance for carrying out a corresponding in-depth analysis of impacts. NGOs such as the WWF recommended that SIAs should not only inform the negotiation process, but that
they should begin even before negotiation positions are formulated, as otherwise important decisions will already have been taken (WWF 2002).

An SIA is usually required to fit into the negotiation timetable, and it should not slow down the negotiation process. While it could be argued that the timing for the negotiations should be influenced by the time required for the analysis of their impacts, DG Trade states clearly that the “SIA process must be carried out without disrupting the negotiation process” (European Commission 2002). In the US, EO 13141 states that environmental reviews “shall be undertaken sufficiently early in the process to inform the development of negotiating positions, but shall not be a condition for the timely tabling of particular negotiating proposals”.

Another relevant question is whether there is sufficient flexibility concerning the focus of an SIA, so that it might change according to the progress in the negotiations. This is referred to as the “moving target” problem (DFAIT 2001; Gallagher et al. 2002).

### 3.2. The assessment procedure as a whole

Several stages that are essentially common to the various methodologies of an SIA process can be distinguished. However, their understanding can differ significantly from one methodology to another. Generally, elements of the assessment procedure are often applied in an iterative manner, moving on from a more global preliminary assessment phase to a more in-depth examination of the issues identified as particularly relevant in the precedent phase. An essential step at the beginning of an SIA is the **scoping exercise**, used to determine which measures are to be considered for assessment (the IDPM methodology uses the term “screening” and counts this as a separate step) and, more precisely, which aspects of each measure are of importance and what methods of analysis should be applied. The scoping exercise already contains elements of a proper SIA; according to the Canadian Assessment Framework, it is indeed identical with the Preliminary EA. A **detailed assessment of proposed measures** is the core part of an SIA. The consideration of appropriate **mitigation and enhancement measures** also forms an essential element; the corresponding provisions in the Canadian framework have been adapted from the IDPM methodology (DFAIT 2000). Provisions for **follow-up and monitoring actions** are usually included as an option, but not as a mandatory component of an SIA (European Commission, 2005).

### 3.3. Parameters of assessment

This section discusses the scope of assessment in the time and space dimensions, as well as the coverage of sectors of the economic, social, and natural systems, and the range of scenarios to be examined. Decisions on these parameters are to be taken at the scoping stage of an SIA.

**Sector(s) of the economy**

The SIA can either cover the whole economy, or it can be carried out in a sector-based approach, or in a manner such that both elements complement each other. For the case of a
sector-based approach, the UNEP manual sets out criteria for selecting priority sectors (UNEP 2001).

**Scenarios and scenario analyses**

Prior or in parallel to negotiations, various scenarios which anticipate different outcomes and degrees of implementation can be applied. The range of scenarios considered in the analysis becomes is a political issue, as is reflected by NGO demands to not only consider scenarios which correspond to current negotiation positions (Oxfam and WWF 2002). The European Commission itself clearly points out that the objective of an SIA is not to assess the desirability of further liberalisation (European Commission 2002). Other challenges related to scenarios are the problem of choosing an appropriate baseline scenario which has to be a projection into the future rather than merely reinforcing the status quo, and the “moving target” problem mentioned above.

**Geographic coverage**

An important decision concerns the question of whether the consequences of a trade measure should only be examined in the country (or country group) where the study is undertaken, or if it should also cover other states affected by a trade agreement. Whereas the US and Canadian approaches are mainly restricted to impacts on their respective countries of origin, the EU approach also considers the consequences for the trading partner. In such an approach, the impacts are preferably analysed by contractors based in those partner countries.

### 3.4. Coverage and valuation of impacts

The OECD identifies five *types of trade-related effects* (OECD 1994): product effects (effects on trade flows in certain products), scale effects (effects on the level of economic activity), structural effects (effects on the structure of economic activity), regulatory effects (effects on environmental and social regulations), and technology effects (effects on technology transfer and production processes). More recent SIA approaches refer extensively to this classification.

Not all assessment approaches considered in this paper cover all three “pillars of sustainability”, i.e. the social, environmental and economic dimensions, as some of them focus mainly on the environment. Nonetheless, assessments of trade policy usually start from economic impacts of trade measures, as impacts on the environment and society can most often be seen as consequences of the economic impacts of the measures under discussion. Some approaches (IDPM, WWF) introduce regulatory impacts as a forth category.

In the context of trade SIAs, the IDPM methodology and the NACEC methodology contain their own sets of *indicators*. The NACEC methodology only uses environmental indicators, which cover a broad range and are elaborated in a detailed manner. The IDPM methodology, which has been explicitly developed for sustainability and not just environmental assessments, uses sets of economic, social and environmental indicators in equal numbers. In addition to these “target indicators”, it proposes “process indicators”, which indicate if an effort towards sustainable development is promoted or hindered by the proposed measures.
Choosing appropriate indicators is not a trivial issue. While on one hand they should cover a comprehensive range of impact areas, on the other hand their number has to be limited for practical reasons. Thus, a set of indicators that is at the same time meaningful and operational has to be found. Another question is how the indicators can be adapted to the specific (e.g. regional) circumstances of a project.

Significance criteria and scoring

The Canadian methodology (DFAIT 2002) counts the assessment of significance as a separate stage of assessment, and provides a detailed list of significance criteria. While this framework proposes a non-numerical scoring of impacts, the IDPM scoring system is numerical. In this context, NGO comments have pointed to the risk of trading positive scores in one area against negative scores in another (Oxfam and WWF 2002, p. 4).

3.5. Assessment methods

It is obvious that a project as complex as an SIA will always require a combination of different assessment methods. However, it is controversial with regards to which types of methods the emphasis should lie upon.

Causal chain analysis (CCA) is the leading method being applied in the IDPM methodology. It can be seen as an overarching principle rather than as a specific method, as it leaves open which specific methods will be used.

Descriptive methods are associated with case studies, a large number of which has been produced by UNEP on trade and the environment. Their advantage is that they provide on-the-ground, empirical insight, and thus come to results which cannot be found with more aggregated techniques, such as modelling. A drawback of many existing case studies is that their methodology is insufficiently developed or explained. They often do not sufficiently examine causal chains, to the effect that specific trade impacts cannot be clearly separated from other factors of change. Another disadvantage is that there is a very limited possibility to generalise from case studies, as it is difficult to assess to what extent they are pertinent for other regions or countries.

Consultative and participative methods are especially used in the context of social impact assessment.

Economic models take an important position in trade impact analysis. A widely applied General Equilibrium model for questions of trade is the GTAP (Global trade analysis project) model. Although it was not specifically developed for environmental assessment, it has also been used in this context for a number of studies (UNEP 2001). Among the more specific economic models, which identify correlations between economic variables and environmental effects, are the OECD General Equilibrium Environmental model (GREEN) for analysing greenhouse gas abatement costs, the TEQUILA (Trade and Environment Equilibrium Analysis) model for assessing NAFTA’s effect on Mexico’s emissions of pollutants, and the COMPASS (Comprehensive Model for Policy Assessment) model for simulating interactions between economic growth, energy use and the environment.
Modelling is better developed for economic indicators than for other indicators of sustainability. This contributes to the tendency of models to oversimplify and to show only a very partial view of reality. As a result, different studies on the same subject may heavily diverge from one another, leading to confusion about the real impacts.

In particular, the usefulness of Computable General Equilibrium (CGE) models in environmental trade reviews has been heavily contested by some researchers (Ackerman et al. 2001; Gallagher et al. 2002) who argue that these models provide relatively little guidance to decision-makers in relation to the huge effort they require. As a consequence, they recommend a wider use of partial equilibrium models and input-output analyses instead of CGE models (Gallagher et al. 2002).

A frequently occurring and widely recognised problem is the lack of pre-existing data for detailed analysis. Consequently, the SIA either has to include primary research, which requires a large amount of resources, or is has to rely on existing data, which would limit research options to what has already been examined previously. For the longer term, it has been recommended that a co-ordinated effort, probably by international organisations (UN or WTO), be undertaken to provide the necessary data (Maltais et al. 2002).

The regulatory assessment is a part of the Canadian and US assessments. Basically, the existing international obligations are analysed to identify how other international instruments such as MEAs deal with the possible adverse effects of trade liberalisation. A regulatory assessment can also include the legal effects of the trade agreement on domestic legislation or its regulatory chill.  

### 3.6. Participation, ownership and disclosure

Fundamental questions in SIAs concern who “owns” the process, who participates, and to which degree the public is involved in the assessment process.

In the EU, DG Trade leads the SIA and determines the scope. SIAs are carried out by external consultants; an inter-service steering committee, including participation of negotiators, is set up to ensure the guidance of the consultants. To a certain degree, civil society is also involved through forums such as stakeholder consultations and through the general possibility of giving comments. The European Parliament is largely excluded from the consultation procedure. This leads NGOs to call for a stronger involvement not only of civil society, but also of all EU institutions (including Parliament and Council) and the Member States. This is required not only in order to give them a voice in the process, but also in order to ensure that SIAs become an integral part of the political decision-making process.

Another question is the range of countries from which governmental institutions, experts and stakeholders should be involved. In the case of the SIA of the EU-Chile agreement, little or no consultation with Chilean authorities, experts and stakeholders took place. In the case of the EU-ACP SIA, more emphasis is put on adequate participation from the partner countries.

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In Canada, a specific EA Committee is to be formed for each Environmental Assessment, composed of officials from various departments and usually headed by the lead negotiator himself. Other institutions involved include Sectoral Advisory Groups on International Trade (SAGITs), the members of which are drawn from the private sector and civil society, as well as representatives of Provinces and Territories. Outside experts from sectoral associations and NGOs, as well as from the broader public, may be engaged at various points of the process as determined by the EA committee.

In the US, the responsibility for the implementation of EO 13141 lies with the Office of the United States Trade Representative (USTR) and with the Council on Environmental Quality (CEQ). These Guidelines set minimum requirements for public participation, including the provision that the USTR should “normally” conduct regular consultations with Congress, advisory committees and the interested public (USTR 2000, p. 16). On the other hand, the Guidelines also state that public participation shall be “not excessively burdensome, and responsive to needs for expedited action and confidentiality” (USTR 2000, p. 11). All three instruments publish calls for consultations and preliminary results on the Internet.

In the NAFTA context, the NACEC is a unique institution insofar as it is a joint committee of all three involved states. It is headed by the ministers of the environment, or their equivalent, in Mexico, Canada and the USA, and is composed of three bodies: the Council of Ministers, the Secretariat and the Joint Public Advisory Committee (JPAC). The JPAC is composed of 15 members, five from each country, who give advice to the Council. Its members come from local authorities, NGOs, business and research institutions.

A difficult question arises with regard to disclosure. Trade negotiations have traditionally been confidential, and the publication of definite negotiation positions would decrease the room for negotiations. The methodologies try to address this problem by involving committees that are allowed to see the confidential negotiation position, but broader participation would necessarily require an increased degree of disclosure of the trade negotiation positions.

4. Conclusions and identification of relevant hypotheses for further research

A number of review and overview reports about SIAs and related approaches have been published in recent years (OECD 2000; UNEP 2001; WWF and FFLA 2000). They provide considerable amounts of material that can be analysed before primary sources are analysed. Because the development of SIAs and the related methodology is a very dynamic process, information has to be continuously updated. Moreover, given the fact that SIAs for trade negotiations represent a relatively young phenomenon, only limited peer reviewed research is available.

Finding the right balance of analytical methods. From a methodological point of view, various attempts to adapt economic assessment methods to environmental and social concerns can be built upon. However, there is no perfect solution for analysing these complex relationships. There are challenges concerning the further development of individual assessment tools as well as concerning their use and interaction within an overall
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assessments framework. An SIA methodology will evolve with practice, and it will always have to be adapted and partly re-invented according to the specific situation.

An essential methodological problem is “bridging the gap between macro-level and micro-level analysis” (Maltais et al. 2002). By choosing a more limited geographical scope, fewer sectors and/or fewer indicators, and examining them in-depth, one risks skewing the whole context and missing essential points of an overall assessment. (Example: only two crops – wheat and edible oil plants – chosen for the WTO food crop study, but a third one – rice – is essential for two of the examined countries.)

Dealing with uncertainty. Some researchers point to the general difficulty of establishing cause-effect relationships between rule changes and changes in complex socio-ecological systems (Janssen 2003). They argue that the assumption that such relationships can be identified at all might be false. As an alternative approach, they suggest concentrating on examining the factors that make a socio-ecological system vulnerable or, on the opposite, resilient to changes, and on assessing the possible influence of a projected measure on the ability of such systems to respond to changes.

It is important to note that uncertainty is not always the result of a lack of data or adequate methodological tools. It may also result from “controversial universes” – differing conceptions of reality, priorities, and systems of value of different actors (Godard 2003). An outstanding example is the objective of “sustainability” itself, which always requires interpretation. In this case, one can speak of “intrinsic uncertainty” (Dedeurwaerdere 2003). To a certain degree, the problem of different perceptions of reality can be addressed within the modelling approaches, such as “integrated modelling” or “agent-based models” (Janssen 2003). However, it also highlights the necessity of dialogue. This leads to the next point:

Participation and ownership. The objective of designing SIAs as a participatory process brings about considerable challenges. A high degree of participation requires a strong willingness of political institutions to accept the questioning of their own premises. It raises questions about the very notion of an SIA: is an SIA a tool for negotiations, or a consultative process? Should an SIA study be the result or just the beginning of such a process? Who owns the process? To which degree is an SIA is descriptive exercise, and to which degree should it be a self-reflexive one?

In any case, possible practical obstacles to participation have to be considered and addressed, e.g. lack of funding (especially NGOs and non-organised local people from developing countries), lack of information and technical resources (e.g. if consultation is planned to be conducted on the internet, but the local groups, or even governmental institutions, do not have internet access), and language barriers.

If the participatory approach is to be extended beyond the national (or EU) borders, involving other countries’ institutions, this in particular can lead to the decentralisation of the assessment process (Cash and Clark 2001; Cash 2000; Knigge and Kranz 2005). A decentralisation can be achieved either in such a way that parts of an SIA are carried out by local consultants, or alternatively that each country / trading partner carries out its own SIA. A drawback of the latter possibility are that there could be a lack of synergies by transfer of data, ideas and results, so duplicated work may be done. Another problem is that rich trading partners have more resources for SIAs, so they might be the only ones to undertake them. Consequently, the SIAs will be designed according to their interests only.
On the other hand, undertaking separate SIAs by different trading partners may also have advantages. Theoretically, each country has better chances of designing the SIA according to its own interests; this could be crucial for the acceptance of SIAs in general, as environmental assessments especially are often suspected to be tools of disguised influence used to the advantage of industrialised countries. This could provide countries with arguments for trade barriers. In principle, the concept of an SIA has the potential to remove this exact argument, as they are not merely environmental assessments, but also consider social aspects. To be credible in reality, though, an SIA must accomplish these principles in an adequate way and be open to trading partners’ ideas and needs.

A third option would be to organise a joint effort in which a commission composed of all trade partner countries/supranational institutions undertakes one single SIA, or at least coordinates their efforts. The NACEC is an example of such a multinational type of institution, the members of which could not only be governmental officials, but also representatives of civil society.

How to make SIA relevant? When discussing conceptions of SA and possible methodological improvements, it is always important to take into account the constraints imposed by the real political process. While financial constraints obviously play a role, time constraints imposed by the decision-making process are probably more important. This aspect of making an SIA function is ultimately a question of political will. However, the task of the researcher lies in conceiving methodologies that are effective under the given circumstances. This implies analysing the interaction between scientific advice and political goals in a self-reflexive manner. It has to be examined under which political conditions an SIA will lead to useful results, and under which circumstances scientific results will influence political practices (Cash and Clark 2001; Haas 2003). A first and necessary step would be to examine to what extent the past and ongoing SIA exercises have had concrete impacts on negotiation outcomes and on the implementation of agreements. A legal obligation to take into account assessment results, or even a right to challenge a negotiation position that fails to do so in court could, just like in the case of domestic EIAs, further strengthens this procedural tool for ensuring sustainability.

5. Literature


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