



# APEC acts to lower the cost of environmentally-friendly imports

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**A**t the Asia Pacific Economic Partnership (APEC) leaders meeting in 2012, APEC nations committed to reduce and cap their tariffs on 54 environmentally-friendly products at five per cent. Over half of these items are energy-related.

This action by APEC members, which represents 54 per cent of world GDP and 44 per cent of global trade, is a tangible international endorsement of the principle that trade liberalisation can contribute simultaneously to economic growth and to environmental sustainability. It therefore starts a new chapter in the debate about the role of trade and the environment – a debate that until recently was dominated by a view in many environmental circles that trade rules represent a threat to environmental protection measures.

Tariffs, or customs duties, are taxes that nations apply to imported products, thereby adding an additional cost to those products and usually increasing their price in

the importing country. Since the Second World War, governments have pursued the successful reduction of tariffs and other barriers to trade within international bodies such as the World Trade Organisation (WTO). The primary objectives of trade barrier reduction are to spur global economic growth and reduce international tensions through greater integration.

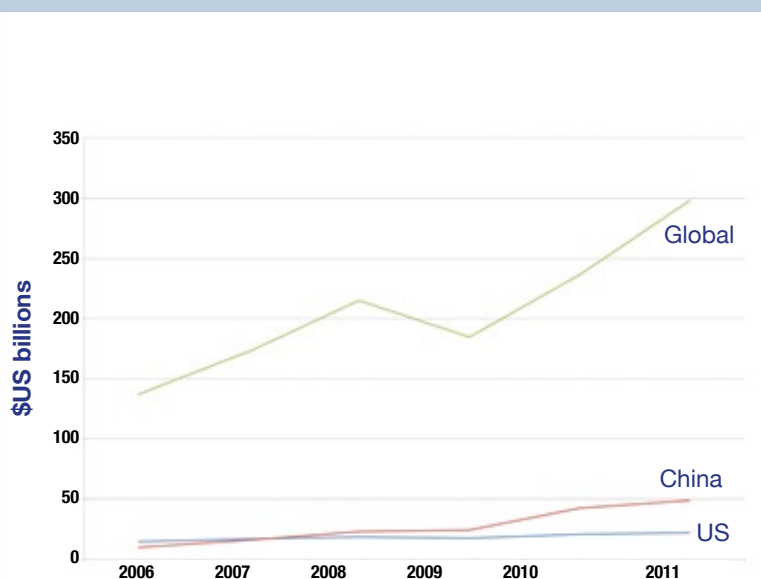
The APEC action is rooted in this policy framework as well as national energy and environmental policies. Many APEC members, for instance, aim to increase the use of renewable energy as a percentage of total electricity generation. Because the cost of electricity from wind, solar and other newly-constructed renewable energy projects is initially higher than that from existing fossil fuel plants, reducing the cost of renewable energy technologies so that market forces can propel them to widespread application is almost always a fundamental goal of national policy. Programmes to reduce renewable energy

costs include government-funded research, tax incentives, and low-cost loans. APEC members have added tariff reduction to that list of policy measures.

In almost all cases, construction of a clean energy project involves the importation of some equipment and parts. By capping tariffs on those products, APEC nations will immediately reduce the cost of such projects and make them more competitive. Few other government actions offer such a clear and immediate impact.

In addition, tariff reduction makes it easier for environmentally-friendly products to be manufactured in higher volumes and sold globally, thereby offering longer-term cost-reduction through economies of scale and attracting additional investment into the sector. The result will be to generate the most total jobs globally, including new construction, professional and service jobs in every location where projects are built. Even for goods trade, the benefits are likely to be distributed widely among countries. As Chart 1 indicates, exports of environmental goods (in this case, as defined by the US Congressional Research Service) are already growing. China and the US together account for only about a quarter of those exports. Among APEC countries, Vietnam is already a major exporter of wind turbine generators.

**Chart 1: Environmental goods exports**



Source: US International Trade Commission Dataweb,  
Congressional Research Service


APEC has acted first to create a trade programme designed to facilitate environmentally-friendly projects. Many other organisations, however, are or have been engaged in similar efforts. In fact, negotiations to reduce or eliminate tariffs on environmentally-friendly goods have been part of World Trade Organisation talks since the launch of the Doha Round of trade negotiations in 2001. Several G8 declarations have also endorsed this approach. Today, with the Doha Round largely inactive, countries are turning increasingly to bilateral and regional free trade agreements, and future versions of those agreements are likely to contain provisions to promote trade in environmentally-friendly products and services.

The World Energy Council (WEC) has played a role in promoting these principles. In 2009, the WEC published a report<sup>1</sup> on energy-related trade rules that highlighted the advantages of eliminating tariffs and other trade barriers on environmental and other energy-related products. Subsequently, in 2010, WEC experts from utilities, ministries and technology companies assessed six types of environmentally-friendly energy projects<sup>2</sup> and identified the most important technologies and products that are utilised in those projects. The WEC then submitted this list of products to the World Trade Organisation in order to support WTO negotiations. Many of the products identified by WEC in that 2010 submission are now included on the APEC list of 54 environmentally-friendly products.

It is important to recognise that, as significant as APEC's action is in setting a precedent, it is also highly limited. In the context of the original Doha Round goals and the 2009 WEC recommendations, APEC's move covers only a fraction of the total field. The APEC decision deals only with tariffs on products. It does not address non-tariff barriers, barriers to investment, or barriers to services trade. Services, for instance, represent a large and growing percentage of energy-related trade, most of which is environmentally-friendly.

Even within the realm of tariffs, the APEC action limits tariffs to 5 per cent rather than eliminating them, and covers only 54 products. The 2009 WEC list had over 110 products, and many more items have been considered in the WTO negotiating groups. Furthermore, although APEC includes some of the largest and wealthiest economies in the world, the APEC decision naturally applies only to the 21 APEC members, not to all 159 members of the

WTO. It is among developing countries (mostly not APEC members), in fact, that tariffs on environmentally-friendly products are highest (see Chart 2).

Finally, APEC members will undertake their commitments on an honour system. Unlike the WTO and most free trade agreements (FTAs), there is no APEC process to formally "bind" tariffs at the agreed level and no dispute settlement process should an APEC member later raise its tariffs above five per cent. 

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<sup>1</sup> Trade and Investment Rules for Energy World Energy Council 2009

<sup>2</sup> The six types of projects examined by the WEC are:

- a. Energy efficiency in power distribution and plant-level consumption;
- b. Carbon capture and storage;
- c. Renewable energy generation (solar, wind, hydro);
- d. Nuclear power;
- e. Natural gas for power generation and other uses; and
- f. Flare gas reduction.

**Chart 2: Bound and applied tariffs on environmental goods (%AVE)**

Importer					
	ACP*	BIC*	Developing	OECD	WTO
Bound tariffs					
ACP*	44.9	27.6	25.7	2.5	15.5
BIC*	41.8	31.7	24.1	2.4	7
Developing	41.3	16.3	24.1	2.3	7.8
OECD	38.7	12.2	23.5	3.0	9.5
WTO	40.0	13.7	23.7	2.7	8.7
Applied tariffs**					
ACP*	10.7	12.1	7.9	0.4	4.8
BIC*	11.7	14.1	5.5	1.7	2.7
Developing	11.4	8.5	5.8	0.6	2.2
OECD	8.1	8.5	4	1.9	3.3
WTO	9.6	8.8	4.5	1.6	3.0

\*ACP – African, Caribbean and Pacific Countries, BIC – Brazil India and China

\*\* Applied tariff as used in this context refers to both applied tariffs on an MFN basis and applied preferential tariffs depending on whether the trading partner is awarded preferences or not. It also assumes a full utilization of preferences.

Source: UNEP Policy Brief, June 6 2012