

Trade Sustainability Impact Assessment in support of FTA negotiations between the European Union and Australia

Inception Report

10 May 2019

EXECUTIVE SUMMARY

The European Commission has commissioned "Sustainability Impact Assessments (SIA) in support of the free trade agreement (FTA) negotiations between the European Union and New Zealand, and between the European Union and Australia," with the two SIAs being undertaken simultaneously, but independently of each other.

SIAs are integrated, independent, evidence-based, transparent, participatory, and proportionate studies and have two main elements. First, they provide a robust analysis of the potential economic, social, human rights and environmental impacts that the trade agreement under negotiation could have in the EU, in the partner country or countries, and in other relevant countries or specific regions. Second, they comprise a continuous and wide-ranging consultation process aimed at ensuring a high degree of transparency and the engagement of all relevant stakeholders in the conduct of the SIA inside and outside the EU.

The Inception Report for the SIA of the European Union-Australia FTA (EU-AUS FTA) presents the overall methodology and approach for the research to be undertaken, as well as proposes a number of sectors and case studies for more in-depth analysis.

The study approach is structured into the following distinct elements:

- First, we will describe the relevant state of play regarding the economic, social, human rights and environmental situation in the EU and Australia.
- We will then look – applying both quantitative and qualitative analyses (including feedback from civil society) at the potential overall and horizontal impact of the EU-AUS FTA, including the effects for SMEs and gender equality.
- The sector analysis will focus on five sectors in more detail. For each sector we will describe the state of play, the expected sustainability impacts as well as effects for SMEs, third countries, and sector competitiveness.
- Spread throughout the overall and sector analyses, six case studies will provide deep dives into specific issues that might be impacted on by the EU-AUS FTA.
- Because consultations are a crucial part of the SIA, the study will devote a separate chapter to the way we have worked with civil society and the feedback we have received.

- From the above elements, we will derive specific recommendations in support of the FTA negotiations and flanking measures to enhance the positive and mitigate the potential negative effects of the FTA.

Approach for the economic analysis

The economic approach is based on a combination of quantitative and qualitative assessment techniques. With regard to the former, computable general equilibrium (CGE) modelling (based on LSE's 2017 ex-ante assessment of the FTA as a starting point)¹ and gravity analyses for FDI and public procurement constitute the main techniques, while the qualitative techniques involve literature and desk research, a survey and consultation of stakeholders.

The following economic variables will be analysed quantitatively: trade flows (bilateral exports and imports; exports and imports to the rest of the world); investment; output; prices; welfare and GDP; as well as fiscal revenues. In addition, we cover FDI and government procurement effects quantitatively as well as conduct a Global Value Chain (GVC) analysis. The qualitative analysis will cover the main non-tariff measures (NTMs) of relevance to the EU-AUS FTA, as well as rules of origin. We also do a review of earlier relevant impact assessment studies. The analysis will also include a discussion on the limitations of the CGE results. We will pay special attention to SMEs in a separate section, in particular to the 'SME test' (the 'think small first' principle) and how the FTA could support SMEs in dealing with NTMs and increase legal certainty.

Geographically, we will study the effects of the EU-AUS FTA on the EU and Australia, and also – separately, and in less detail – its effects on Turkey, the EU's Outermost Regions, Overseas Countries and Territories, and Least Developed Countries (LDCs).

Approach for the social analysis

The social analysis seeks to respond to the question of how a reduction of tariffs and NTMs between the Parties via the EU-AUS FTA may affect a range of social aspects in the EU and Australia. We also seek to determine potential direct and indirect social impacts of other provisions of the future FTA, e.g. on Trade and Sustainable Development (TSD). For each of the following social aspects we analyse first the current situation, then the expected impacts, and conclude by suggesting policy recommendations and flanking measures: employment levels, women (as workers, entrepreneurs, traders and consumers), consumer welfare (including inequality and vulnerable groups), job quality, rights at work, corporate social responsibility (CSR), and public policies (e.g. social protection, healthcare and education). Gender equality issues will be presented in a separate section.

Approach for the human rights analysis

The human rights approach looks at how the EU-AUS FTA could affect the enjoyment of and state's responsibilities regarding human rights. Conceptually, we use an approach that is based on De Schutter (2011) and the European Commission Guidelines for the analysis of human rights impacts in impact assessments for trade-related policy initiatives (European Commission, 2015). First, we provide a concise overview of the *human rights legal framework*. Second, we carry out a screening and scoping exercise to identify specific *key human rights/issues* that are most likely affected. Third, we focus on a limited number of selected human rights/issues and carry out a *detailed assessment* (quantitative and qualitative) of these rights, substantiating on the extent to which particular measures foreseen in the proposed Agreement may affect the enjoyment of the relevant rights.

¹ The preliminary analysis in the Inception Report is based on the Commission's CGE simulations undertaken at the time of the impact assessment. Given the developments regarding the United Kingdom's exit from the EU, the Commission has decided to update the modelling. As the updated results are not yet known, findings presented in later reports prepared in relation to this sustainability impact assessment may differ from those in the present report.

Stakeholder consultations will run through all the stages of the analysis and support, verify and fine-tune the findings and conclusions. Finally, we propose policy recommendations and relevant flanking measures.

Approach for the environmental analysis

In the environmental impact assessment, we assess the most significant potential environmental impacts resulting from the EU-AUS FTA on both the EU and Australia. We start by looking at the different FTA elements that could have an environmental impact, followed by an analysis of the impact channels (i.e. the mechanisms through which the FTA elements can result in environmental impacts). This helps us to define the different specific environmental areas which can be affected by the FTA, the so-called impact areas (e.g. air quality, biodiversity). For each of these impact areas, we carry out a quantitative and qualitative impact assessment and draw policy recommendations and propose flanking measures if necessary.

Sector selection and methodology

We use four criteria to prioritise a maximum of five sectors for more in-depth analysis: the importance of the sector for the economy in terms of employment and output/value added; the magnitude of the FTA's expected economic impact; the magnitude of the FTA's expected social, human rights and/or environmental impact; and the importance of a sector as indicated by key stakeholders and issues of relevance for the negotiations. We also factor in a gender equality and SME perspective and we also aim for broad economic coverage (by trying to include at least one agricultural, one industrial and one service sector). Based on these criteria, we propose to analyse the following sectors: *ruminant meats, motor vehicles and transport equipment, machinery, dairy, and communication and business services*. The methodology for the sector analysis will be analogous to the methodology for the overall analysis.

Case study selection

In addition to the sector analysis, the SIA will also comprise up to six case studies, which will allow us to go beyond the modelling results and delve into specific relevant issues important for stakeholders. The selection criteria for case study topics are: key stakeholder suggestions; relevance of the topic for one or more sustainability pillars; the existence of specific economic effects; and the relevance for the negotiations. Based on these criteria, the following topics are proposed in the Inception Report: *sugar and water quality, wine, textiles labelling and rules of origin, access to critical raw materials: lithium battery value chain, iron ore mining, and biodiversity and conservation*.

Consultations approach

The objectives of the consultations are to engage with interested parties in order to reflect their experience, priorities and concerns, to help identify priority areas and key issues relating to the possible economic, social, environmental and human rights impacts in the negotiations, and to contribute to the transparency of the SIA analysis, through an open and transparent process where presented results are openly and transparently discussed.

To achieve these objectives, the consultation plan foresees an active and systematic engagement with stakeholders, during the entire study period, to share information and findings, gather ideas and suggestions that will enrich the analysis with information "from the ground," and to obtain feedback on draft results and information from stakeholders in the EU and Australia. The plan is based on four pillars: first: digital engagement with key stakeholders through the SIA website and other channels; second, interviews/ meetings with and surveys of stakeholders; third, civil society dialogue (CSD) meetings; and fourth, meetings with EC officials. An initial list of stakeholders in the EU and Australia to be

consulted has been compiled in the inception phase and will be updated throughout the study.