

Committee on Trade and Environment

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French

FRAMEWORK FOR CONDUCTING ENVIRONMENTAL ASSESSMENTS OF TRADE NEGOTIATIONS

Communication from Canada

I. EXECUTIVE SUMMARY

1. The Government of Canada is committed to sustainable development. As part of this commitment and in keeping with the *1999 Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals*, Canada will conduct Strategic Environmental Assessments of trade negotiations. This framework establishes the process and analytical requirements for conducting such assessments. A Strategic Environmental Assessment, referred to simply as an "environmental assessment" in this framework, is a systematic process of identifying and evaluating likely and significant environmental impacts of an initiative. The objective of such an assessment is to integrate environmental considerations into the decision-making process from the earliest stages of an initiative.

2. The framework is organized into two main parts. Part 1 identifies the importance of recognizing environmental considerations of trade and describes how the framework will contribute to mutually supportive trade and environmental policy. Part 2 outlines the process and analytical requirements for undertaking an EA of a trade negotiation.

3. The framework was prepared on the premise that liberalized trade provides benefits to Canada. With the value of exports representing 45 per cent of our gross domestic product, liberalized trade contributes to economic growth and higher living standards for Canadians. Potentially, trade liberalization can have a positive impact on the environment by improving the efficient allocation of resources, promoting economic growth, increasing general health and welfare and generating revenues that can be used for environmental improvement. However, in the absence of effective environmental policies and regulations, increased economic activity generated by trade liberalization can contribute to environmental problems.

4. Undertaking environmental assessments is an effective way to address such potential problems and to protect the environment by improving overall policy coherence at the national level and by assisting decision-makers to understand environmental implications of trade policy. An environmental assessment of a trade negotiation has two key objectives:

- To assist Canadian negotiators integrate environmental considerations into the negotiating process by providing information on the environmental impacts of the proposed trade agreement; and
- to address public concerns by documenting how environmental factors are being considered in the course of trade negotiations.

5. It is also acknowledged that assessing the environmental impacts of trade negotiations is a complex task and the exercise will be challenging. Answers to important questions are sometimes elusive. As pioneers in this new field of analysis, we are learning as we go and will need to explore various assessment techniques to overcome data and methodological limitations.

6. The framework is intended to be flexible and generic so that it can be adapted and applied to a variety of trade negotiations on a case-by-case basis according to the nature of the agreement to be negotiated. However, the process does outline basic requirements regarding the timing and methods of engaging the public and private sectors and civil society in environmental assessments. Required outputs and decisions are also identified at each step. The process of conducting an EA corresponds to the timing of the proposed trade negotiation and will involve the following steps:

- Announce intent to conduct an EA (when trade negotiation announced);
- prepare an Initial EA (released in advance of negotiation);
- prepare a Draft EA (released at the start of negotiation); and
- prepare a Final EA Report (released after negotiation concludes).

7. Environmental Assessment (EA) Committees will be formed to undertake the analysis required to complete the environmental assessments. Coordinated by the Department of Foreign Affairs and International Trade, EA Committees will include representatives from federal government departments and agencies. While membership of the EA Committees will vary according to the nature of the proposed negotiations, Environment Canada and the Canadian Environmental Assessment Agency will always be represented. When necessary, participating departments and agencies may elect to engage independent research bodies to undertake some of the required analysis.

8. The method of undertaking the analysis is outlined in four stages:

- Identify the economic effect of the negotiation;
- identify the likely environmental impacts of such changes;
- assess the significance of the likely environmental impacts; and
- identify enhancement/mitigation options to inform the negotiations.

9. EA Committees will apply the four stages of analysis to prepare the Initial EA and Draft EA. The Draft EA will be used by negotiators during the negotiations. If necessary, further analysis would be undertaken during the negotiations using the same analytical stages. Illustrative lines of inquiry are provided in the framework to assist in the analysis. A Final EA report will be issued at the conclusion of the negotiations to summarize the outcomes in relation to the Draft EA and to recommend any follow-up or monitoring actions.

10. The Government of Canada is most grateful for the valuable contributions from numerous individuals in the public and private sectors in preparing this framework. We will continue to seek the views and expertise of Canadians as we begin the exciting and challenging task of applying the framework.

II. BACKGROUND: CANADA AND TRADE NEGOTIATIONS

A. INTRODUCTION

11. The Government of Canada is committed to sustainable development. Mutually supportive trade and environmental policies can contribute to this commitment. Toward this end, the Minister for International Trade, with the support of his Cabinet colleagues, has directed trade officials to improve their understanding of, and information base on, the relationship between trade and environment issues at the earliest stages of decision-making, and to do this through an open and inclusive process. The environmental assessment of trade negotiations is critical to this work.

12. In keeping with the *1999 Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposal*¹, Canada will conduct Strategic Environmental Assessments of trade negotiations. A Strategic Environmental Assessment, referred to simply as an environmental assessment in this framework, is a systematic process of identifying and evaluating likely and significant environmental impacts of an initiative. The objective of such an assessment is to integrate environmental considerations into the decision-making process from the earliest stages of an initiative.

13. This framework establishes a process for conducting environmental assessments of trade negotiations. The resulting environmental assessments, in turn, are intended to assist trade negotiators to factor environmental considerations into the negotiations of trade agreements. The assessments will endeavour to sensitize negotiators to the likely significant environmental impacts of trade agreements, improve awareness and understanding of the trade and environment linkages and promote improved coherence of trade and environmental policies. The environmental assessment process may also help to identify opportunities for building capacity for environmental protection.

14. This framework is intended to be flexible enough to be applied to current and any future trade liberalizing negotiations in the World Trade Organization (WTO), the Free Trade Area of the Americas (FTAA) and in bilateral Free Trade Agreements (FTAs). It should be noted that this framework is not intended to apply to agreements that are negotiated to resolve bilateral trade disputes due to the dynamic nature of such negotiations and the unpredictable timing involved. However, this does not preclude consideration of environmental issues.

15. Development of this framework involved input from numerous stakeholders and their views and expertise will continue to be sought at specific stages throughout the conduct of environmental assessments.

16. The Government of Canada sees no contradiction between liberalized trade and environmental protection. Canada's economy benefits immensely from international trade, with the value of exports representing 45 per cent of our gross domestic product. Potentially, trade liberalization can have a positive impact on the environment by improving the efficient allocation of resources, promoting economic growth, increasing general health and welfare and generating revenues that can be used for environmental improvement. Increased economic activity generated by trade liberalization can contribute to environmental problems if domestic policies are distorting, or if there is an absence of effective environmental policies and regulations.

17. The prime objective of liberalized trade is to contribute to economic growth and higher living standards for Canadians. The government recognizes and appreciates that economic growth, for its own sake, does not always lead to positive outcomes. Ideally, the best way to mitigate any negative effects of economic growth (social, economic, or environmental) is through appropriate domestic policy, not through prescriptive measures within trade agreements.

18. It is becoming increasingly clear that economic and environmental concerns need to be considered in conjunction with social issues. However, more study and understanding is needed to determine the most effective and appropriate ways to consider these factors collectively. Recognizing that it is imperative to integrate the social implications in the long term, it is vital to take action to achieve the best possible results now on the environment-trade interface. It could also be argued that the furthering of environmental protection in trade policy carries with it a social benefit in that a healthy environment benefits the well-being of the people who inhabit it.

¹See Annex 1 for the 1999 Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals.

B. ASSESSING THE ENVIRONMENTAL IMPACTS OF TRADE NEGOTIATIONS

19. The Department of Foreign Affairs and International Trade (DFAIT) has been leading a federal inter-departmental process over the past year to prepare a framework for conducting environmental assessments of trade negotiations. This work is being conducted in a transparent and systematic manner through engagement with the provinces and territories, aboriginal groups, business groups and the public. The information gleaned from environmental assessments will provide valuable input to any future *ex post* environmental review of a trade agreement.

20. It is important to note the difference between an environmental assessment of a policy, such as a trade negotiation, and an environmental assessment of a project. The latter is a requirement under the *Canadian Environmental Assessment Act* and does not relate to the proposed framework. Rather, this framework was prepared in response to the *1999 Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals* that requires federal departments and agencies to undertake strategic environmental assessments of policy proposals. While the process for conducting an environmental assessment of policy may appear similar to a project assessment, the two are different and should not be confused. A policy assessment is best characterized as a forecasting tool to anticipate environmental impacts and/or opportunities. The difficulty in undertaking such a process involves dealing with a host of data limitations and uncertainties, timing issues and numerous other complexities not commonly associated with project-based environmental assessments.

21. Canada participates in international discussions on the environmental assessment of trade policy in a variety of fora, including the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), as well as in the North American Commission for Environmental Cooperation (NACEC). In December 2000, the United States government released final guidelines for conducting environmental reviews of trade agreements in keeping with the President's 1999 Executive Order. Other countries, such as Norway, have already identified sectors of special interest and are undertaking environmental reviews or assessments. The European Commission (EC) has opted for a more general qualitative sustainability impact assessment. See Annex 2 for a summary of the state of the work on this subject.

22. Some of the most challenging environmental issues that we face today are transboundary or global in scope and can only be fully addressed through global actions. Global solutions are required to address issues such as climate change, ozone depletion, persistent organic pollutants and the depletion or pollution of common resources like oceans, while bilateral and regional solutions are required to address such issues as acid rain or endangered migratory species. Multilateral environmental agreements (MEAs) are a more appropriate mechanism than trade agreements to address these issues. It is important to note that the environmental assessments resulting from this framework will not endeavour to integrate trade negotiations with environmental negotiations. However, it is important, as Canada has advocated, to clarify the relationship between multilateral environmental agreements and trade agreements and to ensure that they are mutually supportive.

C. OBJECTIVES OF AN ENVIRONMENTAL ASSESSMENT OF TRADE NEGOTIATIONS

23. An environmental assessment of trade negotiations is an important decision-making tool for promoting sustainable development. Environmental assessments of trade negotiations can contribute to more open decision-making within the federal government by engaging representatives from other levels of government, the public, the private sector and non-governmental organizations in this process. Environmental assessments can also improve overall policy coherence at the national level by assisting decision-makers to understand environmental implications of trade policy.

24. In sum, an environmental assessment of a trade negotiation has two key objectives:

- To assist Canadian negotiators integrate environmental considerations into the negotiating process by providing information on the environmental impacts of the proposed trade agreement; and
- to address public concerns by documenting how environmental factors are being considered in the course of trade negotiations.

D. CHALLENGES OF ASSESSING THE ENVIRONMENTAL IMPACTS OF TRADE NEGOTIATIONS

25. Assessing the environmental impacts of trade negotiations is a complex task and answers to the questions it raises are sometimes elusive. As pioneers in this new field of analysis, we are learning as we go and will need to explore various assessment techniques. This framework is an initial attempt to outline a step-by-step process for undertaking environmental assessments of trade negotiations. It is not designed to be prescriptive or to provide a "one size fits all" approach but one that will be adapted and applied on a case-by-case basis according to the nature of the agreement to be negotiated. It is also not a final product, but a living document that will be periodically updated as we gain experience and knowledge. The framework will be posted on DFAIT's website (<http://www.dfait-maeci.gc.ca/tna-nac/social-e.asp#environment>) along with a compendium of resource materials.

26. Conducting an environmental assessment of a trade negotiation presents significant challenges:

- Methodologies for strategic environmental assessments of policy issues, including trade negotiations, are new and evolving. There is no single "best " methodology for conducting such an assessment and not all methodologies are appropriate in all circumstances.
- Although Canada has undertaken *ex post* reviews of trade agreements, we have yet to conduct an *ex ante* environmental assessment of trade negotiations on the scale proposed in this framework.
- Currently, there are significant limitations in data and information to establish definitive quantitative economic effects of trade negotiations and subsequent environmental impacts.
- It is difficult (and sometimes impossible) to isolate the environmental impacts of a specific trade agreement from other agreements or from factors external to trade.
- The assessment process proposed in this framework has the potential to be a dynamic exercise, as it may have to focus on a "moving target." As negotiations evolve, new and unanticipated issues may arise that may necessitate further analysis and response.
- Not all issues can be considered at once. A scoping exercise will need to be carried out in the early stages of the environmental assessments to help identify the most significant and likely environmental impacts. Consistent with the *1999 Cabinet Directive*, resources will need to be focused on those issues where the environmental impacts are likely and significant.

III. FRAMEWORK FOR CONDUCTING ENVIRONMENTAL ASSESSMENTS OF TRADE NEGOTIATIONS

27. The Department of Foreign Affairs and International Trade (DFAIT), in consultation with other federal government departments and agencies, will conduct environmental assessments of trade negotiations. An Interdepartmental Steering Committee, coordinated by DFAIT with representatives from relevant federal government departments and agencies will be responsible for ensuring that

assessments are conducted for all new trade agreements in a consistent manner and in accordance with the process outlined in this framework.

28. Environmental assessments will be initiated as part of the process for developing Canada's negotiating objectives. Environmental Assessment (EA) Committees will be formed to undertake the analysis required to complete the environmental assessments. While membership of the EA Committees will vary according to the nature of the proposed negotiations, Environment Canada and the Canadian Environmental Assessment Agency will always be represented. Likewise, negotiators for the proposed agreements will always be represented on the EA Committees. DFAIT will be responsible for ensuring that the necessary resources for undertaking the environmental assessments are identified and allocated in accordance with Treasury Board guidelines. When necessary, the EA Committee and participating departments and agencies may elect to engage independent research bodies to undertake some of the required analysis required to complete the assessments.

29. In undertaking environmental assessments, the EA Committees will seek the advice of Sectoral Advisory Groups on International Trade (SAGITs) that advise the Minister of International Trade on trade-related issues. SAGITs are composed of individuals from business and industry groups, environmental non-governmental organizations (NGOs) and academic institutions. While the advice provided by SAGITs to the Minister is confidential, their views will be helpful in the early stages when the EA Committee is establishing the scope of an assessment and criteria to determine significance. SAGIT advice will also be helpful during the negotiations. A SAGIT sub-committee will also be formed specifically to provide input on EAs conducted as appropriate. Members would be drawn from the various SAGITs and would include individuals from environmental NGOs, industry representatives, and academics.

30. Existing tools will be improved, or new ones developed, such as handbooks and checklists, to assist negotiators in integrating environmental considerations into the negotiating process. DFAIT will develop a database to provide a more active and immediate communication link to the public and to solicit input on the environmental assessments of trade negotiations.

31. The framework is designed to be applied to negotiations on an agreement-by-agreement basis. In the context of a comprehensive multilateral trade negotiation, for example at the WTO, agreement-by-agreement analysis would be undertaken, the results of which would then be consolidated and assessed in an integrated manner before the negotiations conclude. The level and scope of analysis undertaken would be determined on a case-by-case basis according to the nature of the agreement to be negotiated and the significance of the likely environmental impacts.

32. While many environmental issues should be examined in the global context to be most completely understood, limited data, sovereignty issues, limited resources and practicality demand that the primary focus of such assessments, at this time, be on assessing the most likely and significant environmental impacts of trade negotiations in relation to the Canadian environment. Although the proposed framework calls for *national assessments*, trans-boundary, regional and global environmental impacts will be considered if they have a direct impact on the Canadian environment.

A. THE PROCESS FOR CONDUCTING ENVIRONMENTAL ASSESSMENTS OF TRADE NEGOTIATIONS

33. The key elements of the proposed process for conducting an environmental assessment (EA) correspond to the trade negotiation process. An overview of the process for conducting an EA is provided in Table 1. This section outlines the procedural steps that will be undertaken to conduct an EA. Section 2.2 outlines the analytical framework to prepare an EA.

34. Conducting an EA will involve the following steps:

- Notice of intent to conduct an EA (announced when trade negotiation announced);
- preparation of an Initial EA (released in advance of negotiation);
- preparation of a Draft EA (released at the start of negotiation); and
- preparation of a Final EA Report (released after negotiation concludes).

Table 1: Overview of Process to Conduct Environmental Assessments of Trade Negotiations

➡ Approximate Duration			Weeks - Months		Months - Years	Months
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Weeks - Month	Outputs (What) Decisions	Gazette Notice and/or DFAIT Internet Notice Determine appropriate method and length of engagement	Gazette Notice and/or DFAIT Internet Notice Initial Assessment briefly identifies the anticipated issues and analysis to be assessed in Draft EA Determine appropriate method and length of engagement (+/- 60 days) Further environmental assessment necessary? If yes, proceed to Draft EA; if no, issue Initial EA and process complete.	Draft EA elaborates the likely and significant environmental impacts and identifies proposed mitigation/enhancement options Are the likely and significant adverse environmental impacts mitigable? Determine appropriate method and length of engagement (+/- 60 days)	Negotiators will consider the findings of the Draft EA during the conduct of negotiations and any new analysis required would be conducted by the EA Committee as negotiations evolve.	Final EA Report Recommended follow-up and monitoring actions?
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(a) **Notice of Intent to Conduct an EA**

35. When a trade negotiation is announced, a notice of intent to conduct an environmental assessment will also be publicised in the *Canada Gazette* and/or posted on DFAIT's website. An EA Committee will be formed at this step that reflects the nature of the proposed trade negotiation. **The purpose of this step is to publicise the intention to conduct an EA, and to invite comments on environmental matters related to the proposed negotiations.** Views from other levels of government, aboriginal groups, SAGITs, business groups and the public will be sought on environmental matters relating to the proposed negotiations in order to help prepare an initial environmental assessment. Comments would be sought for 60 days unless a shorter or longer period is considered appropriate.

(b) **Initial EA**

36. Following the Notice of Intent and the period of public comment, an Initial EA will be publicised in the *Canada Gazette* and/or posted on DFAIT's website. DFAIT will prepare the Initial EA following discussions and consultations with the EA Committee and representatives of other levels of government, aboriginal groups, SAGITs, business groups and the public. The Initial EA will be prepared using the analytical framework outlined in Section 2.2. **The fundamental purpose of the Initial EA is to scope out the main environmental issues likely to arise as a result of the proposed negotiations.** Comments would be sought for 60 days unless a longer or shorter period is appropriate. Comments received during the specified period would be used to help prepare the Draft EA.

37. While Initial EAs will be conducted for a variety of trade negotiations, it may be determined that a full environmental assessment is not required if significant environmental impacts are unlikely to occur. Such circumstances would be documented and publicised in the Initial EA and no further action would be required. Otherwise, further analysis would be undertaken to prepare the Draft EA.

(c) **Draft EA**

38. A Draft EA will be publicised in the *Canada Gazette* and/or posted on DFAIT's website at the start of negotiations. DFAIT will prepare the Draft EA following discussions and consultations with the EA Committee and representatives from other levels of government, aboriginal groups, SAGITs, business groups and the public. The Draft EA will be an elaboration of the Initial EA and will employ the same analytical framework as outlined in Section 2.2. **The fundamental purpose of the Draft EA is to inform the negotiators of the identified environmental concerns during the conduct of negotiations.** Views on the Draft EA will be sought for 60 days unless a shorter or longer period is considered appropriate. Comments received during the specified period would be considered during the course of negotiations. This does not preclude the opportunity for comment at any point during negotiations, particularly in the event that new issues would arise.

39. As the negotiations proceed, the trade activity under negotiation may touch on previously unanticipated areas, thereby necessitating further analysis. The identification of likely significant environmental impacts may not be a one-time exercise. Further analysis will be undertaken as required and appropriate during the course of negotiations. Given the confidentiality of the negotiating process, further analysis during the negotiations would not normally be made public, but would be documented in the Final EA Report issued at the conclusion of negotiations. However, the EA Committee would seek the advice of the SAGITs on an on-going basis throughout the negotiation as discussed earlier. Furthermore, in the event of prolonged negotiations, public updates would be provided as appropriate by the EA Committee.

(d) **Final EA Report**

40. A final environmental assessment report will be publicised in the *Canada Gazette* and/or posted on the DFAIT website after negotiations have concluded. **The purpose of the Final EA Report is to document the outcome of negotiations in relation to the EA process.** The Final EA Report would identify any notable divergence from the Draft EA, subsequent analysis undertaken and the anticipated environmental implications. The document would also note any additional information or comment received from the public on the EA during the course of negotiation. The EA Committee would use the final report to help notify other levels of government, aboriginal groups, business groups and the public of any final recommendations for mitigation and/or enhancement measures and any proposed follow-up actions to monitor the environmental impacts of the negotiated agreement. Comments on the Final EA Report would be welcome from the public. The framework will be periodically updated on the basis of experience and new information.

41. The Final EA Report would also be useful for internal and external verification or audit exercises. It will be particularly useful for conducting any *ex post* environmental review of the new agreement in question. Similarly, the Commissioner of the Environment and Sustainable Development, under the auspices of the Office of the Auditor General, may wish to use the Final EA Reports for environmental audit purposes.

B. ANALYTICAL FRAMEWORK TO CONDUCT AN ENVIRONMENTAL ASSESSMENT OF TRADE NEGOTIATIONS

42. The previous section outlined the procedural steps to conduct an EA. This section outlines the analytical methodology to undertake an EA. The analysis will rely largely on existing information, augmented as necessary by additional research. Analysis will include quantitative and qualitative techniques and apply local and traditional knowledge when appropriate. As noted earlier, an EA of a trade negotiation has the potential to be a dynamic exercise, as it may have to focus on a "moving target." As such, the analytical stages described here may have to be undertaken at various points during the EA process. Regardless of when the analysis is undertaken during the course of an EA, the same analytical stages would be applied.

43. There are four stages in the analytical framework:

Stage 1: Identification of the economic effect of the negotiation

Stage 2: Identification of the likely environmental impacts of such changes

Stage 3: Assessment of the significance of the identified likely environmental impacts

Stage 4: Identification of enhancement/mitigation options to inform the negotiations

Stage 1: Identification of the Economic Effect of the Agreement to be Negotiated

44. The purpose of this stage is to identify the trade liberalization activity of the trade agreement to be negotiated. This stage will first identify what the potential agreement would entail and the overall **economic relevance** of the agreement to Canada. This will help to determine the scope of analysis required for the environmental assessment and to prioritize the issues to be assessed.

45. Employing largely existing information, the nature and scope of the agreement to be negotiated and its economic relevance to Canada could be analysed by pursuing the following illustrative lines of inquiry:

- What is the nature of the agreement to be negotiated?
- What are Canada's goals in these negotiations?

- What sectors of the economy might be affected by the agreement and in what ways?²
- Will the agreement likely increase or decrease the imports or exports of specific types of goods, services, or investments?
- Will the agreement likely lead to increased or decreased consumption of specific products or services?
- Is the agreement likely to decrease or eliminate tariffs?
- Are exports in the affected sectors subjected to tariff escalation (where tariffs increase with the level of value-added processing) such that economic considerations favour the export of unprocessed, raw materials?
- Is it likely to lead to tighter disciplines on subsidies?

46. Analysis during this stage would also endeavour to determine, when appropriate, if and how the trade liberalization activity could affect issues such as, for example:

- Trade flows (product or technology);
- economic activity (scale and structural³; and/or
- unique effects on the provinces or territories (other than the ability to regulate).

47. The **ability to regulate or legislate** refers to the likely legal and/or policy effects of agreements. Positive effects may result when appropriate environmental regulations, standards or other measures are in place to address macro- and micro-economic changes. Negative effects may result when appropriate environmental policies or regulations are not present, or if the agreement impedes the development or implementation of such policies or regulations.

48. The effects of **trade flows** cover both products and technology, including services. *Product effects* pertain to changes in trade flows of products. Positive effects may result when an agreement leads to increased trade in beneficial products, such as energy-efficient goods. Negative effects may result if the agreement leads to an increase in the production and trade of products that have direct or indirect negative impacts on the environment. *Technology effects* relate to changes in the flow of technologies, for example, technologies that reduce the resource requirements (energy, inputs) or reduce or eliminate pollution that may otherwise result from production.

49. The effects on **economic activity** include both scale and structure. *Scale effects* refer to changes in the overall level of economic activity or macro-economic effects of trade agreements. Positive effects may result from economic growth and financial gains when appropriate environmental policies or regulations are in place. In the absence of such policies or regulations, or when they are impeded or not enforced, negative environmental effects may result, such as unsustainable resource use or pollution resulting from trade-related increases in transportation. *Structural effects* refer to the changes in the patterns of economic activity or micro-economic effects of trade agreements. Positive effects may result when the agreement promotes the efficient allocation of resources and efficient patterns of production and consumption. Negative effects may result when the patterns of consumption are inefficient or unsustainable and/or when appropriate policies and regulations are not present. Baseline scenarios may be established as appropriate at this stage to help measure the changes resulting from the trade negotiations.

²Sectoral analysis would be based on the classification system outlined in Annex 3, unless another classification system would be more appropriate. For example, an EA of the WTO Services Agreement would employ the unique sectoral classification system designed for that agreement.

³Discussion of regulatory, product, technology, scale and structural effects based on OECD, 1994.

Stage 2: Identification of the Likely Environmental Impact of Such Changes

50. Once the economic effects of the trade agreement have been estimated, the likely environmental impacts of such changes are approximated. The EA will also identify those positive environmental benefits that might arise from the negotiations in the form of environmentally "friendly" technologies and capacity-building initiatives.

51. For the purpose of this framework, "environment" refers to the components of the Earth, including land, water, air, including all layers of the atmosphere, all organic and inorganic matter and living organisms (including humans) and the interacting natural systems that include components of the foregoing.

52. Examples of questions to assist with the determination of likely environmental impacts - positive, negative, unknown, or neutral - may include:

- Will the trade negotiations be consistent with Canada's existing commitments under multilateral environmental agreements (MEAs), such as the Montreal Protocol, the Bio-diversity Convention, the Kyoto Protocol, etc.?
- Will the trade agreement affect the federal/provincial/ territorial governments' ability to regulate environmental protection or to enhance environmental benefits?
- Will the trade negotiations affect the achievement of an environmental quality goal (e.g., reduction of greenhouse gas emissions or protection of endangered species)?
- Will the trade negotiations affect the number, location, type and characteristics of initiatives which would be subject to project-level environmental assessment, as required by the *Canadian Environmental Assessment Act* or an equivalent process?
- Will the trade negotiations promote or discourage the transfer of environmentally-responsible technologies? Will it involve a new process or delivery arrangement with environmental implications? Are there any trade-related obstacles to the diffusion of cleaner technologies?
- Will the trade negotiations increase or decrease the availability of environmental goods and services, the consumption of ecologically sensitive inputs, the movement of environmentally-hazardous goods, or any other environmental externalities?

Stage 3: Assessment of the Significance of the Identified Likely Environmental Impacts

53. If likely environmental impacts are identified, they will be assessed as to their significance. Possible factors to determine significance include:

- What is frequency and duration of the impact?
- What is the geographical scope and magnitude of the impact?
- Is there an established high level of risk to the environment associated with the impact?
- What sectors will be affected and what is the environmental relevance of those sectors?
- Are the impacts irreversible?
- Are the impacts likely to lead to cumulative impacts?
- Are there possible synergies among the impacts?

54. Additional criteria to determine the degree of significance will be developed as appropriate. This is an area where the views of SAGITs and outside "experts" will be particularly useful.

55. This stage will require an initial survey of related existing information from various sources to help identify information gaps and areas where further work may be required. Every effort would be made to use or update relevant existing information and analysis. Once gaps in the information base have been identified and once resource requirements have been identified and allocated, further consultations with environmental assessment experts, provinces and territories, aboriginal groups, business groups and the public may be required to determine how and to what extent analysis will be undertaken to ascertain the magnitude of the likely environmental impact. This will include an analysis of those sectors that are clearly identifiable as being the subject of the agreement being negotiated and to which environmental impacts are attributable. An overriding consideration is that the level of effort in conducting any analysis will be commensurate with the level of anticipated environmental impact.

56. If it is determined that no likely significant environmental impacts will result from the trade agreement to be negotiated, this will be documented and no further assessment action should be required. However, environmental factors will continue to be considered on an on-going basis particularly as new information arises during the course of negotiations.

Stage 4: Identification of Enhancement/Mitigation Options to Inform the Negotiations

57. Previous stages of analysis identify the likely and significant environmental impacts of negotiations. Stage four identifies the policy options or actions to address negative impacts and to enhance positive impacts.

58. Generally, the analysis in the previous stages will have been undertaken in a consolidated fashion. However, more complex or comprehensive trade agreements may require various aspects to be studied in a disaggregated manner. For such cases, before identifying mitigation and/or enhancements options, the analyses conducted in the previous stages should be aggregated to determine whether cumulative impacts are likely to occur. Methods and tools will be developed to combine and assess the agreement analyses collectively. In the context of a comprehensive multilateral round of trade negotiations, such as at the WTO, negotiating timetables may not permit public release of the collective analysis until the Final EA Report is issued after the negotiations conclude.

59. Once cumulative impacts have been considered, enhancement and mitigation options would be identified. The mitigation and enhancement options would assist the negotiators to identify, as appropriate, what steps can be taken outside or within the negotiations to either address or enhance environmental outcomes. Examples of possible options include the establishment of new, or modifications to existing programmes to address the likely negative environmental impacts identified and/or enhance the likely positive impacts. Additionally, there may be a need to establish mechanisms for follow-up to monitor the outcomes of an agreement in the course of its implementation. Another example could be to work with like-minded countries or organizations on issues identified during the course of the assessment.

60. In the absence of regulatory measures and institutions to address likely and significant negative environmental impacts, alternative policy responses to mitigate these impacts and to enhance the positive environmental impacts, would be examined. Again, because not all impacts can be examined, efforts will be focussed on significant impacts as identified in stage 3.

61. In addition to identifying these options, other decisions that negotiators may make on the basis of the results of environmental assessments include the following:

- Abandoning a negotiating position and developing a new approach;
- retaining the negotiating position; or

- retaining the negotiating position and taking other steps to mitigate the effects.

62. As noted, any new analysis undertaken during the course of negotiations due to new and unanticipated issues would be documented and included in the Final EA Report.

C. PUBLIC PARTICIPATION

63. Environmental protection is a core Canadian value and priority. Canadians have a say in the development of Canada's environmental policy and trade agenda. Public input will continue to be sought by the Government when undertaking environmental assessments of trade negotiations. This framework identifies the form and at what point public input will be sought during an environmental assessment of a trade negotiation. While the timing and scope of public participation will vary depending on the nature of the agreement to be assessed, numerous opportunities for public participation are proposed as outlined throughout Section 2.1.

64. Given the confidentiality of the negotiating process, re-evaluations during the negotiations would not be shared with the public, but would be documented in the Final EA Report issued at the conclusion of negotiations. However, as noted in Section 2.1 (c), the EA Committees will seek the advice of Sectoral Advisory Groups on International Trade (SAGITs), comprising individuals from environmental non-governmental organizations, the private sector and academic institutions throughout the environmental assessment process. This would include any major new analysis required, or re-evaluations of the draft environmental assessment during negotiations.

D. SUMMARY

65. This framework document outlines the Government of Canada's process for undertaking environmental assessments of trade negotiations. The principal goal of the environmental assessment exercise is to ensure that likely and significant environmental impacts of trade agreements on the Canadian environment are taken into consideration during the negotiating process. With input from Canadians at specific stages of the environmental assessment process, the Government will also be able to identify options for mitigating the likely and significant negative environmental effects, or enhancing the positive effects.

For further information on this framework, contact:

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This framework will be periodically updated as experience is gained during its application. Visit the DFAIT website to view updated versions of this framework and supplementary information on environmental assessments of trade negotiations:

<http://www.dfait-maeci.gc.ca/tna-nac/social-e.asp#environment>

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GLOSSARY

Environment

Refers to the components of the Earth, including land, water, air, all layers of the atmosphere, all organic and inorganic matter and living organisms (including humans) and the interacting natural systems that include components of the foregoing.

Environmental Assessment (EA)

Used synonymously with "Strategic Environmental Assessment" in this framework, an EA is a systematic process to identify and evaluate likely environmental effects of an initiative to ensure that they are fully considered and addressed from the earliest stage of decision-making.

Mitigation

The elimination, reduction or control of the adverse environmental effects that may result from the proposed initiative under review.

Retrospective Analysis

The Retrospective Analysis is the 1999 follow-up study to the 1994 Canadian Environmental Review of the Uruguay Round of the GATT.

Sector

A group of closely related industries. See Annex 3 for more information on sector classification.

Strategic Environmental Assessment

Used synonymously with Environmental Assessment (EA) in this Framework, a Strategic Environmental Assessment is a systematic process to identify and evaluate likely environmental effects of an initiative to ensure that they are fully included and addressed at the earliest stage of decision making. The term "strategic" is added to the title to distinguish the activity from project-level environmental assessment.

LIST OF ACRONYMS

DFAIT	Department of Foreign Affairs and International Trade
C-TRADE	Commerce-Trade Committee (federal-provincial/territorial)
EA	Environmental Assessment
EC	European Commission
FTAA	Free Trade Areas of the Americas
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
MEA	Multilateral Environmental Agreement
NACEC	North American Commission for Environmental Cooperation
NAFTA	North American Free Trade Agreement
NGO	Non-Government Organization
OECD	Organization for Economic Cooperation and Development
SAGIT	Sectoral Advisory Group on International Trade
WTO	World Trade Organization

ANNEX 1

THE 1999 CABINET DIRECTIVE ON THE ENVIRONMENTAL ASSESSMENT OF POLICY, PLAN AND PROGRAMME PROPOSALS

1. Consistent with the Government's strong commitment to sustainable development, Ministers expect that policy, plan and programme proposals of departments and agencies will consider, when appropriate, potential environmental effects.
2. More specifically, Ministers expect a strategic environmental assessment of a policy, plan or programme proposal to be conducted when the following two conditions are met:
 - (i) The proposal is submitted to an individual Minister or Cabinet for approval; and
 - (ii) implementation of the proposal may result in important environmental effects, either positive or negative.
3. Departments and agencies are also encouraged to conduct strategic environmental assessments for other policy, plan or programme proposals when circumstances warrant. An initiative may be selected for assessment to help implement departmental or agency goals in sustainable development, or if there are strong public concerns about possible environmental consequences.
4. Ministers expect the strategic environmental assessment to consider the scope and nature of the likely environmental effects, the need for mitigation to reduce or eliminate adverse effects and the likely importance of any adverse environmental effects, taking mitigation into account. The strategic environmental assessment should contribute to the development of policies, plans and programme s on an equal basis with economic or social analysis; the level of effort in conducting the analysis of potential environmental effects should be commensurate with the level of anticipated environmental effects. The environmental considerations should be fully integrated into the analysis of each of the options developed for consideration and the decision should incorporate the results of the strategic environmental assessment. Departments and agencies should use, to the fullest extent possible, existing mechanisms to involve the public, as appropriate and document and report on the findings of the strategic environmental assessment.

For further information, or to view the Guidelines on Implementing the Cabinet Directive, visit the Canadian Environmental Assessment Agency's website: http://www.ceaa.gc.ca/act/dir_e.htm

ANNEX 2

OVERVIEW OF ANALYTICAL MODELS OR APPROACHES FOR ASSESSING THE ENVIRONMENTAL EFFECTS OF TRADE AGREEMENTS

1. Much has been written in recent years about the relationship between trade and the environment. While there has been a good deal of research and analysis on the topic, there is very little practical experience with the systematic environmental assessment of trade agreements. Previous examinations that have attempted a broad approach to the assessment of environmental effects of trade agreements, including the Canadian environmental assessment of the North American Free Trade Agreement, have relied on qualitative methods of analysis. It appears that quantitative analysis has been reserved for specific case studies or sectoral examinations.
2. In preparing this draft Environmental Assessment Framework, a number of analytical models or approaches for assessing environmental effects of trade agreements were considered.
3. In an **agreement-by-agreement approach**, the broad environmental effects of the agreement would be identified and analysed in a series of steps. The various agreement analyses would be combined and analysed collectively toward the end of the exercise. This is the method Canada has chosen primarily for functional reasons. Given that negotiations proceed on an agreement-by-agreement basis, the method proposed here would facilitate a coordinated approach to data gathering and information analysis.
4. Although such an approach would be analytically challenging, it can help to keep the process manageable and focussed, as not all issues would have to be considered at once, while still allowing for integrated analysis at various stages. Another advantage of this approach is that the sectoral data and information gathered can be used from one agreement to the next. There are, however, two disadvantages to this approach that should be acknowledged. The first is that pertinent data and information may not be readily available, or not at all; however, this issue would have to be faced regardless of the approach used for an Environmental Assessment. Secondly, the agreement approach may not identify some key issues of concern to Canadians until well into the process, or perhaps not at all, if those issues are not triggered by an agreement, or if a particular agreement is not re-opened for negotiation. This may create a perception that issues have been overlooked or avoided.
5. A variation of the agreement approach proposed here would be to conduct the **analysis on a sectoral basis** from the outset, rather than having the analysis flow from agreements. This approach would examine the broad economic and natural resource sectors (listed in Annex 3) *vis-à-vis* Canada's broad goals for negotiations at the WTO. An advantage of this approach is that the study could be undertaken within a specific time-frame and would not have to be tied to negotiating schedules. The disadvantage would be the lack of focus or specificity given that the detailed content of the negotiations will not be known.
6. Another possible approach would be to conduct an **"issue-based" analysis** by identifying key issues of concern to Canadians through consultations and focus groups. These issues could then be analysed *vis-à-vis* their relationship to WTO agreements yet to be negotiated. Possible issues might include concerns with globalization; perceived loss of sovereignty for decision-making and regulatory powers; various resource issues such as sustainable forest management, bulk-water exports; and agriculture-related issues such as chemical and pesticide use; and genetically-modified organisms. This approach would be similar in scope to the *WTO Special Study on Trade & Environment, 1999*. The advantage of this approach would be that the study could be undertaken in a specific time-frame, for example over the next 6-9 month period and would tackle the most prominent issues related to Canada's being party to the WTO. There are two disadvantages to this approach. First, it may lack focus and specificity, given the possibility that many of the issues may have no

direct relation to WTO agreements under review. Second, there may be a lack of consensus during the process on what constitutes a key "issue".

7. The Commission on Environmental Cooperation (CEC), established under the North American Free Trade Agreement (NAFTA), has recently released an analytical framework for assessing the environmental effects of NAFTA. The CEC framework contains a broad listing of factors to consider and incorporates elements from the OECD methodology (scale, structure, technology, product and regulatory effects). The CEC framework has many useful elements that could be used, especially the sections related to indicators of environmental effects. Although the framework is quite broad, it has not yet been fully applied and there appear to be no plans to do so in the near future. It is acknowledged in the NAFTA analytical framework that the document has not resulted in a conclusive assessment of all of NAFTA's actual environmental effects on the basis that baseline data is not available and a definitive assessment not yet possible.

8. Finally, the "Sustainability Impact Assessment" approach employed by the European Union was evaluated for its potential application to the Canadian context. This approach focuses on broad qualitative analysis techniques and some have argued that the findings are too general for an accurate assessment. A preliminary assessment was carried out, on the basis of three "scenarios" for trade liberalization incorporating EU proposals (baseline, intermediate and liberalization). A particularly useful element of the EU approach, which has been built into the Canadian framework is the concept of establishing mitigating and enhancement measures for consideration. The sustainability impact assessment approach also conducts a review of the trading partner's environmental and labour standards. This has drawn harsh criticism from developing countries that object to this scrutiny by developed countries and claim that such assessments should be domestically focussed.

ANNEX 3

THE NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM (NAICS): CANADA SECTORS

Source: <http://www.statcan.ca/english/subjects/standard/prefac.htm>

1. The North American Industry Classification System (NAICS) is unique among industry classifications in that it is constructed within a single conceptual framework. Economic units that have similar production processes are classified in the same industry and the lines drawn between industries demarcate, to the extent practicable, differences in production processes. This supply-based, or production-oriented, economic concept was adopted for NAICS because an industry classification system is a framework for collecting and publishing information on both inputs and outputs, for statistical uses that require that inputs and outputs be used together and be classified consistently. Examples of such uses include measuring productivity, unit labour costs and the capital intensity of production, estimating employment-output relationships, constructing input-output tables and other uses that imply the analysis of production relationships in the economy. The classification concept for NAICS will produce data that facilitate such analyses.

2. NAICS divides the economy into twenty sectors. Industries within these sectors are grouped according to the production criterion. Though the goods/services distinction is not explicitly reflected in the structure of NAICS, five sectors are largely goods-producing and fifteen are entirely services-producing industries.

- 11 Agriculture, Forestry, Fishing and Hunting
 - 21 Mining and Oil and Gas Extraction
 - 22 Utilities
 - 23 Construction
 - 31-33 Manufacturing
 - 41 Wholesale Trade
 - 44-45 Retail Trade
 - 48-49 Transportation and Warehousing
 - 51 Information and Cultural Industries
 - 52 Finance and Insurance
 - 53 Real Estate and Rental and Leasing
 - 54 Professional, Scientific and Technical Services
 - 55 Management of Companies and Enterprises
 - 56 Administrative and Support, Waste Management and Remediation Services
 - 61 Educational Services
 - 62 Health Care and Social Assistance
 - 71 Arts, Entertainment and Recreation
 - 72 Accommodation and Food Services
 - 81 Other Services (except Public Administration)
 - 91 Public Administration
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