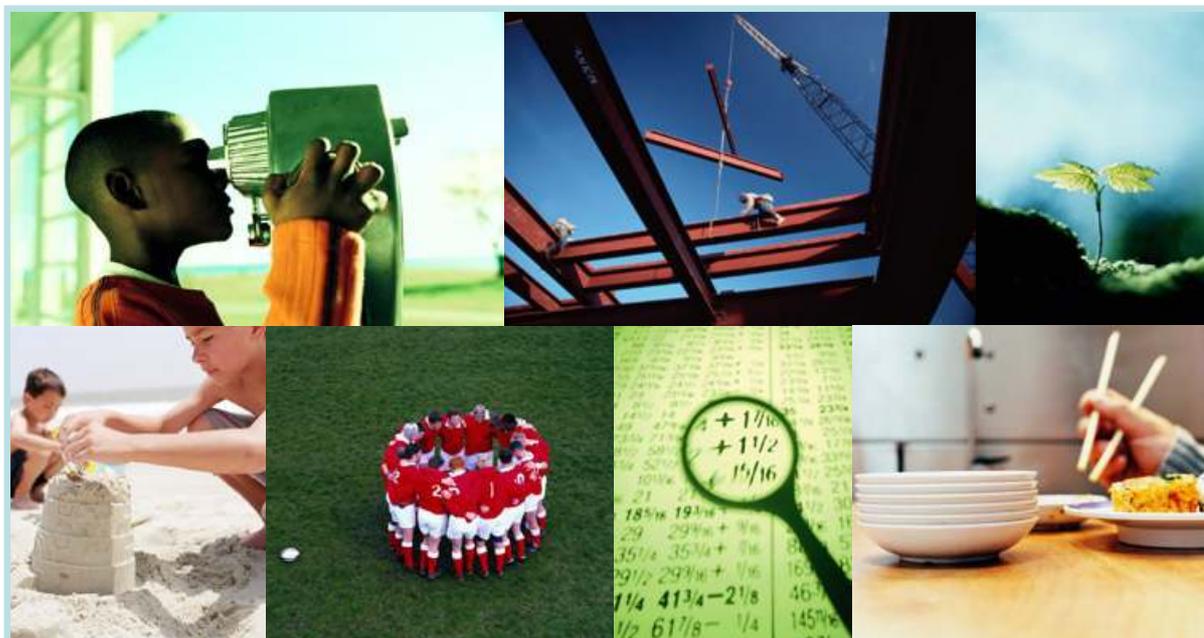


IBM Business Consulting Services
In Association with DMI Associates, Ticon and T-A-C



Trade Sustainability Impact Assessment (Trade SIA)
of the Free Trade Agreement to be negotiated between
the European Community and the Republic of Korea

Inception Report

Lot n°5 – FWC Commission – project N° 2007/349757/1

The views expressed in this report are those of the consultants and do not necessarily reflect those of the European Commission.

October 2007

Revised

ACRONYMS AND ABBREVIATIONS

ACP:	Africa Caribbean and Pacific countries
CARICOM:	Caribbean Community
CCA:	Causal Chain Analysis
CGE:	Computable General Equilibrium
CPDC:	Caribbean Policy Development Centre
CS:	Civil society
CSD:	Commission on Sustainable Development
CTA:	Technical Centre for Agricultural and Rural Cooperation ACP-EU
DCs:	Developing Countries
DGs:	Directorate Generals of the European Commission
EBA:	Everything But Arms
EC:	European Commission
ER:	Environmental Reviews
EU:	European Union
FAO:	Food and Agriculture Organization of the United Nations
FLEGT:	EU Action Plan for Forest Law Enforcement, Governance and Trade
FTA:	Free Trade Area
GCC:	Gulf Cooperation Council
GDP:	Gross Domestic Product
GSP:	Generalised System of Preferences
HIPC:	Heavily Indebted Poor Countries
IA:	Impact Assessment
ISC:	International Steering Committee
ILO:	International Labour Organisation
NGOs:	Non-Governmental Organisations
LDCs:	Least Developed Countries
MDGs:	Millennium Development Goals
M&E:	Mitigation and enhancement measures
NAFTA:	North America Free Trade Agreement
NTM:	Non-Tariff Measures
ODA:	Official Development Assistance
OECD:	Organisation for Economic Co-operation and Development
R&D:	Research and Development
RTA:	Regional Trade Agreement
Trade SIA:	Trade Sustainability Impact Assessment
SMEs:	Small and Medium Enterprises
SPWPs:	Secondary Processed Wood Products
TOR:	Terms of Reference
TRIPS:	Trade-Related aspects of Intellectual Property rights
TRTA:	Trade-Related Technical Assistance
UNDP:	United Nations Development Programme
UNEP:	United Nations Environmental Programme
UNCTAD:	United Nations Conference on Trade and Development
USTR:	United States Trade Representative
WB:	World Bank
WHO:	World Health Organization
WTO:	World Trade Organization
WSSD:	World Summit on Sustainable Development



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1. INTRODUCTION

1.1. PROJECT CONTEXT

The Commission's communication "Global Europe: competing in the world"¹ reviewed the contribution of EU trade policy to the European Growth and Jobs strategy. The communication reaffirmed the EU's commitment to the WTO and the DDA as its first trade policy priority. The communication concluded that the EU could generate new opportunities for growth by going beyond the level of liberalisation achieved multilaterally, through opening markets further to trade and investment and sharing its rules and standards with its partners. The communication sets out policy initiatives to complement negotiating efforts under the WTO. This includes a new generation of carefully chosen bilateral free trade agreements.

The Republic of Korea (Korea) is already the fourth largest trading partner outside Europe for the EU 25. Yet there remains a significant potential to expand bilateral trade between the EU and Korea. Korea is a trading partner where there is a significant gap between the current position of EU producers and their usual position in comparable countries.

Korea has recently concluded negotiations of FTAs with a range of partners including ASEAN, Chile, EFTA, and the United States. Korea is actively engaged in FTA negotiations with Japan, Canada and India. The effect of the implementation of these present and potential agreements, which has already commenced in the case of Chile, EFTA and ASEAN, and in the absence of a bilateral FTA between the EU and Korea, would be to increase indirect economic interaction between the EU and Korea through third countries and attenuate bilateral economic relations.

The EU has been committed to conducting Trade SIAs as part of its trade policy-making process since 1999. Trade SIAs assess the potential impacts of proposed liberalisation on all pillars of sustainable development in order to help optimise policy decision-making. Trade SIAs assess not only the more traditional, economic impact, aspects of trade liberalisation (e.g. on trade and output growth), but also its non-trade impacts (i.e. the social, environmental dimensions and considerations related to general development, including governance and capacity building).

Trade SIAs are based on the analysis of causal chain effects which seek to identify significant cause-effect links between a proposed change in trade policy and its social (including gender and poverty), environmental and economic impacts. The analysis combines qualitative and quantitative approaches, uses sustainability indicators and is based on the principle of proportionate analysis. The analysis focuses on the nine core indicators identified in the Trade SIA methodology (three for each dimension of Sustainable Development). The Trade SIA is also a tool to strengthen further the Commission's ongoing dialogue with stakeholders² and with its trading partners.

1.2. PROJECT CONTEXT AND STARTING SITUATION

The Terms of Reference state:

"Methodological gaps exist for the evaluation of impacts on all three pillars of sustainable development. This is particular the case for the pillars of social and environmental impacts, but also for the economic pillar in the areas of economic impacts of areas such as services liberalisation or regulatory issues (investment, trade facilitation, public procurement,

¹ COM(2006) 567, "Global Europe: competing in the world", 4 October 2006

² In accordance with the main categories of potential stakeholders as identified in the European Commission Communication (2002 704 final) summarised in table 3 of the SIA Handbook (p.24/25) and also taking into account section 5.4.2 of the SIA Handbook - (Civil society groups targeted for consultation).

competition), and the adjustment costs of integration. Given the limitation of the study budget, work should focus on areas for which the methodology is already reasonably well developed and for which analytical tools are already available.”

This is a very important observation since there are a wide range of potential economic environmental and social effects over various time frames that could conceivably occur as a result of a potential EU-Korea FTA, but many of these effects are likely to be very small in magnitude and in many cases the nature of the effects would be difficult to predict without many assumptions about possible indirect effects. The analysis of the baseline and the potential impacts of the EU Korea FTA are necessary to identify the more significant potential impacts as a focus for the more intensive analysis of specific sectoral and horizontal issues which could have significant environmental or social consequences.

1.3. PROJECT OBJECTIVES AND RESULTS TO BE ACHIEVED

The Trade SIA will:

1.3.1. IDENTIFY THE IMPACTS ON SUSTAINABLE DEVELOPMENT OF THE AGREEMENT TO BE NEGOTIATED

The Trade SIA study will provide a deeper understanding of the sustainability impacts of the trade and investment aspects of the Free Trade Agreement and of the mechanisms through which they might affect both the EU and Korea. The study will consider any relevant economic, environmental and social impacts resulting from the agreement. The Trade SIA will also clarify the potential impact of the FTA on third countries including LDCs and poor and vulnerable countries.

The potential impacts on the EU 27 and Korea will be developed in detail depending on the nature of the specific impacts in particular sectors. In some cases case studies may provide an effective way to examine detailed impacts.

1.3.2. MAKE POLICY RECOMMENDATIONS

The study will make policy proposals (both trade and non-trade related) for optimising the outcome of the negotiations, preventing and/or mitigating possible negative impacts and enhancing positive impacts including through the identification of flanking measures in the EU 27 and Korea.

1.3.3. CREATE A BASIS FOR A RATIONAL AND INFORMED DISCUSSION

The SIA will provide input to discussions between EU and Korea representatives and stakeholders about the sustainability implications of the Agreement under negotiation.

1.3.4. CONTRIBUTE TO THE DEVELOPMENT OF AN INTERNATIONAL NETWORK OF TRADE SIA EXPERTS

This work will build on the existing Trade SIA network. In particular, the Consultant will establish links with the activities of international organisations, such as the European Investment Bank, the European Bank of Reconstruction and Development, the Organisation of European Co-operation and Development, the United Nations Development Programme (UNDP) and Environment Programme (UNEP), the International Labour Organisation (ILO) and the World Bank in order to benefit from the input of these organisations and to create synergies between proposed complementary measures and activities undertaken by these bodies.

2. PROJECT PLANNING

2.1. METHODOLOGY, WORK PLAN, TIMEFRAME AND OUTPUTS

2.1.1. INCEPTION PHASE

The project commences with a short Inception Phase and the preparation of an Inception Report.

2.1.2. PROJECT IMPLEMENTATION

The project is divided into three phases:

- **Phase 1** - Baseline scenario, possible scenarios of likely outcome and selected sectors and horizontal measures;
- **Phase 2** - Detailed assessment of impact on sustainability of selected sectors and horizontal measures;
- **Phase 3** - Final overview and recommendations concerning the EU's negotiating positions as well as accompanying measures in order to achieve the sustainable development objectives of the FTA.

Phase 1 - Baseline scenario

The Trade SIA will start with a short phase of global base line analysis which will include some modelling (with emphasis on dynamic effects) to ensure that the Trade SIA is based on robust economic data and a valid baseline and analytical framework. This preliminary phase will identify a limited number of issues, social groups, sectors and geographical areas which appear to be key in terms of the scale of importance of the impacts expected, and will result in:

1. *Analysis and Identification of the Baseline.* The baseline analysis is an important part of the analysis, outlining what are the likely scenarios and trends in case no agreement is concluded between the EU and Korea. Such baseline analysis will take into account existing commitments of Korea under WTO and to what extent these commitments have been implemented, existing tariff and non-tariff barriers and implications for effective market access, as well as the effects of a successful completion of WTO negotiations under the DDA. In addition, the baseline analysis will take systematic account of the effects of the implementation of the various bilateral FTAs negotiated by Korea. The quantitative study prepared by Copenhagen Economics referred to in the Terms of Reference analyses the implementation of the EU Korea FTA simultaneously with other FTAs negotiated by Korea. Changes in the sequencing of negotiation of FTAs by Korea as compared with the assumption embodied in that study will be part of the characterisation of the baseline.
2. In addition, *the baseline will integrate specific analysis of the following issues:* implementation of Intellectual Property Rights (IPR) in Korea, export restrictions applied by Korea, subsidies and investment policies of the Korea government, public procurement regulatory arrangement, technical standards, sanitary and phytosanitary (SPS) rules, other Non-Tariff Barriers (NTB), competition policy of Korea, transparency, customs regime of Korea and Korean initiatives in negotiating regional free trade agreements. As noted above the implications of the implementation of other Korean FTAs will be an important element in the baseline analysis.
3. A range of quantitative methodologies will be utilised in the analysis. The analysis will review all the existing quantitative studies; utilise long run static Computable General Equilibrium (CGE) modelling methods using the latest version of the GTAP model (version 6.2); and utilise dynamic methods based on panel estimation of pooled cross section and time series data.

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4. *Analysis of the Impacts of Alternative Negotiation Scenarios.* Given that the EU aims to achieve a deep and comprehensive FTA, the Consultant will make clear assumptions about the possible outcome of further market opening as well as regulatory convergence that could result from the negotiations in order to assess their economic, social and environmental impact. One scenario will look at an ambitious outcome of the negotiation in the areas mentioned in Paragraph 2.1 of the Terms of Reference. Another scenario will describe a less ambitious outcome, i.e. limited integration in the above-mentioned fields. The specification of the scenarios will be validated by the Commission.
5. *The identification of selected economic sectors as well as horizontal measures* that will be potentially affected in significant ways or are likely to be representative in terms of expected sustainability impacts. The choices of sectors and horizontal measures will be a key focus of the Phase 1 study. They will be subject to further detailed analysis in the second phase of the study. The detailed sectoral studies can examine qualitative and dynamic factors which are not easily incorporated in economy wide modelling analysis.
6. *A minimum of 4 sectors and 4 horizontal issues/trade measures will be proposed* for more detailed assessment. The final selection of the sectors and horizontal issues must be made in coordination with the Steering Committee and after consultation of civil society. The analysis will aim at identifying economically, environmentally and socially sensitive sectors and products. It will also cover areas in which trade liberalisation is expected to have direct benefits including environmental and social ones (win-win).

Deliverable: Global Analysis Report

Also during phase one a web site will be developed and implemented for the Korea SIA.

Deliverable: Korea SIA web site implemented

Phase 2 - Detailed assessment of impact on sustainability indicators of selected sectors and horizontal measures

Following the global study (phase 1), the Consultant will conduct detailed Trade SIAs on the sectors and horizontal issues identified in the first phase of the study. The sector studies will be analysed in detail and will focus on sub-sectors. Appropriate attention will also be focused on one case study for each sector or horizontal study at regional level.

The analytical work during phase 2 will include quantitative analysis informed by modelling results as well as qualitative assessments of the impacts of potential outcomes in the sectors concerned. The analysis will assess the economic, environmental and social impact of possible results of negotiations as well as cross sectoral effects according to the two scenarios of outcome mentioned above adapted appropriately to the specific sector and horizontal measures. The analysis will also identify the specific social groups and geographical areas most likely to be affected positively and negatively by the outcome of the negotiations as assumed in the two scenarios.

During this phase, the Consultant will organise a workshop in Korea in order to gather the views of interested parties, in particular Korean business, administration, and civil society, including social partners, NGOs and other interested organisations to validate the preliminary results of the study carried out.

Deliverables: Workshop and Impact Studies

Phase 3 - Final overview and recommendations concerning the EU's negotiating positions as well as accompanying measures in order to achieve the sustainable development objectives of the FTA

The analysis of the studies will seek to identify recommendations and policy proposals concerning EU's negotiation positions and contribute to policy dialogue between the two partners, e.g. in relation to trade policy vis-a-vis sensitive sectors. It will also propose enhancement and prevention/mitigation measures which may be needed to reinforce any



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positive and address any possible negative sustainability impacts. They may suggest priorities to be given to specific sectors and specific actions on horizontal issues. The Consultant shall consult the Steering Committee on draft recommendations prior to their finalisation.

2.2. ACTIVITY SCHEDULE

The following activity schedule is proposed for an accelerated implementation of the EU Korea FTA Sustainability Impact Analysis.

	SIA Activities	Date/Comments
0	Inception Phase	
	Starting work for the Korea SIA contract	01 October
	Preliminary meeting with the consultant to discuss the activity schedule of the contract	15 October
	Draft Inception Report outlining the work to be carried out	19 October
	Comments from the Steering Committee (SC)	24 October
	Contacts with Commission representatives who are relevant for the work to be carried out	In all phases
	Work in progress for the Draft Global Analysis Report (phase 1)	24 October
	Revised inception report	5 November
	Approval by the SC of the inception report	8 November
	Creation of the dedicated SIA website with a feedback function. Terms of Reference (ToR) (and all relevant documents) to be on-line at the contractor and Dg Trade websites	Early stage in the inception phase
	Final inception report to be on line (contractor and DG Trade)	9 November
	SIA network. A basis for this network can be the DG Trade EU civil society database but it should be supplemented as necessary including with Korean stakeholders (for this latter aspect contractor may seek support from the EC delegation): http://trade.ec.europa.eu/civilsoc/search.cfm?action=form	Early stage in the inception phase
1	Phase 1/Global Analysis Phase – Focus on key areas	

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	Consultation: web site, interviews/meetings, questionnaires, etc.	In all phases
	<p>Draft Global Analysis Report (GAR):</p> <ul style="list-style-type: none"> • The report should be drafted in such a way as to be accessible to trade and non-trade specialists alike and provide a concise summary of the findings. • Identification of the baseline scenario, major economic, social and environmental trends, including specific analysis based on the broad negotiating directives. • Proposals for the definition of the two liberalisation scenarios. One scenario will look at an ambitious outcome of the trade negotiations and another scenario will describe a less ambitious outcome of the likely outcome of trade negotiations. These proposals should look at plausible/realistic scenarios for the different sectors. • Identification of a minimum of 4 sectors, including focus on sub-sectors with the help of at least one case study for each sector and 4 horizontal issues to be proposed for more detailed assessment in phase 2. Possible sectors could be: automotive, agriculture, environmental goods and services and financial services. 	15 November
	Detailed summary of the draft report in Korean (1/10 of the English report)	Before civil society meeting
	On line approval of the draft report by the SC	21 November
	Update of the websites (contractor and DG Trade)	21 November/23 November (if changes are needed on quality before the draft report is on-line)
	<p>Back to back meetings with the SC and civil society organised by the Commission. Presentation of the main findings by the contractor and discussion.</p> <p>The final selection of the sectors and horizontal issues must be made in coordination with the SC and after consultation of civil society taking into account also the workshop in Seoul.</p> <p>The specification of the two likely liberalisation scenarios will be validated by the Commission.</p>	29 November
	Comments from SC and civil society	14 December
	Work in progress for the Draft Midterm Report (phase 2)	14 December

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	Revised Global Analysis Report (including version with track-changes)	17 December
	Approval of the revised report by the SC	21 December
	Up date of the websites	21 December
2	Phase 2/Midterm Phase - Focus on key areas	
	All reports, recommendations and dossiers prepared by the consultant should be accompanied with detailed summaries in Korean	In particular in the light of the Seoul workshop
	Workshop in Seoul in order to gather the views of local stakeholders, including on the choice of sectors. Participants (45) should include Korean business, administration and civil society, including social partners, NGOs, etc. The EC delegation in Seoul might get involved in the selection of participants. The draft list will be approved by the SC. The contractor will be responsible for preparing the documentation of the workshop. The consultant will make a proposal for the workshop organisation. The programme will be finalised in coordination with the SC. The venue will be provided by the EC delegation. Catering and interpretation will be provided by the contractor.	14 December
	<p>Draft Midterm Report:</p> <ul style="list-style-type: none"> • The report should be drafted in such a way as to be accessible to trade and non-trade specialists alike and provide a concise summary of the findings. • Detailed Trade SIAs on the sectors and horizontal issues identified in the first phase of the study and workshop report. • Workshop report. 	7 January
	Detailed summary of the draft report in Korean (1/10 of the English report)	Before civil society meeting
	On line approval of the draft report by the SC	14 January
	Update of websites	15 January/17 January (if changes are needed on quality before the draft report is on-line)
	Preliminary draft of policy recommendations and accompanying measures (focus on priority areas) for the draft final report (Phase 3). A distinction between EU, Korea, negotiating positions and cooperation activities should be	21 January

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	provided.	
	Back to back meetings with the SC and civil society. Preliminary discussion with the SC on possible policy recommendations	23 January
	Comments from SC (on the draft midterm report and on the preliminary policy recommendations and flanking measures –preliminary draft final report – Phase 3) and civil society	28 January
	Work in progress for the Draft Final Report (Phase 3)	28 January
	Revised Phase 2 Report (including version with track-changes)	4 February
	Approval of the revised report by the SC	8 February
	Update of the websites	8 February
3	Phase 3/Final Phase - Focus on key areas	
	Draft Final Report: <ul style="list-style-type: none"> • The report should be drafted in such a way as to be accessible to trade and non-trade specialists alike and provide a concise summary of the findings. • Final overview and recommendations, including accompanying measures. 	11 February
	Detailed summary of the draft report in Korean (1/10 of the English report)	Before civil society meeting
	On line approval of the draft report by the SC	14 February
	Update of the websites	15 February/18 February (if changes are needed on quality before the draft report is on-line)
	Back to back meetings with the SC and civil society	21 February
	Revised Phase 3 Report (including version with track-changes)	25 February
	Approval of the revised report by the SC	28 February
	Up date of the websites	28 February

Reference: Trade 2007/349757/1

Related to a contract to provide a Trade Sustainability Impact Assessment (Trade SIA) of the
Free Trade Agreement to be negotiated between the European Community and the Republic of Korea



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