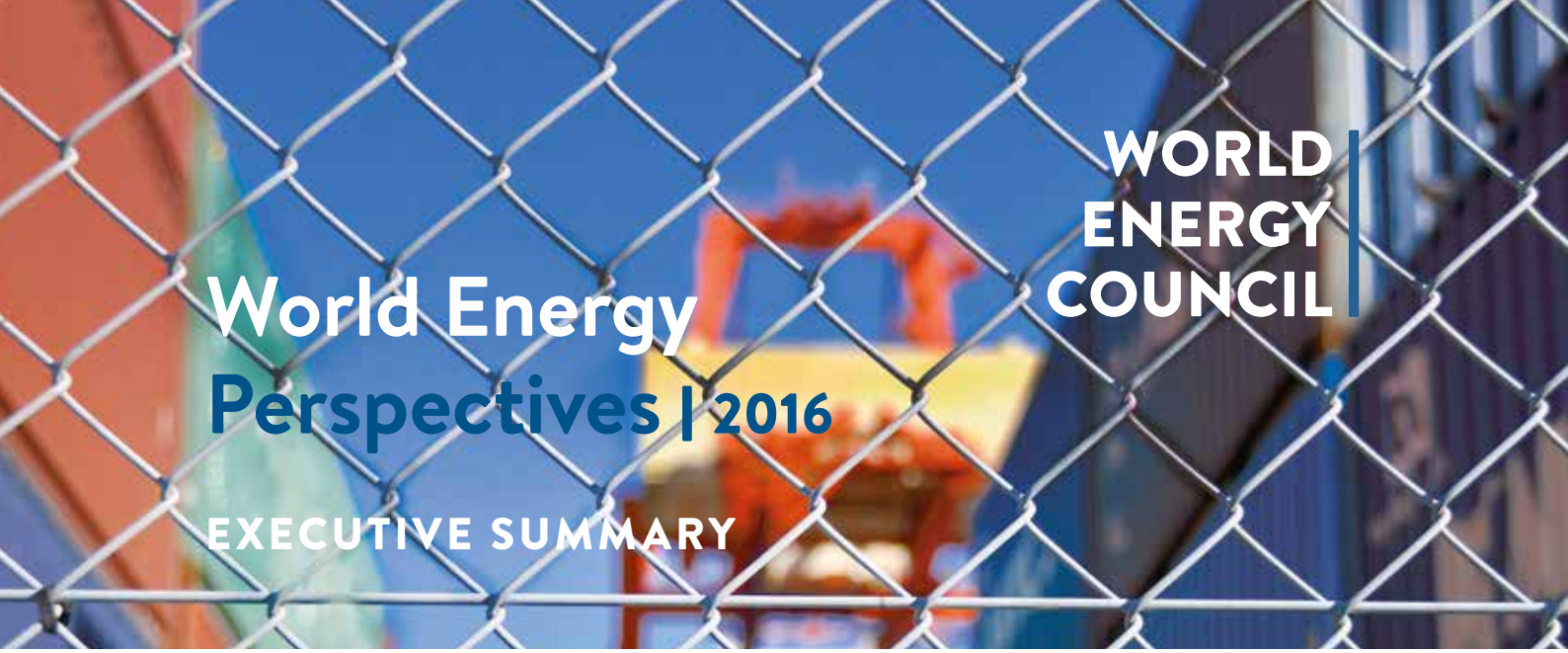


WORLD ENERGY COUNCIL

World Energy Perspectives | 2016

EXECUTIVE SUMMARY

NON-TARIFF MEASURES: NEXT STEPS FOR CATALYSING THE LOW-CARBON ECONOMY

Environmental goods represent a trade market of approximately US$1 trn annually.[1] Reducing barriers to trade and investment would tangibly support cost effectiveness and efficient decarbonisation of the energy sector, leading to more sustainable and accessible energy systems. Understanding and tackling non-tariff measures (NTMs) that impact on the low-carbon energy sector should be a priority in a country's efforts to successfully address its energy trilemma – the links between energy security, energy equity, and environmental sustainability. These three dimensions can contribute to the prosperity and competitiveness of individual countries.

As a trade barrier, NTMs frequently relate to customs procedures and import requirements, technical standards and other regulations that impede the flow of goods and services. These are estimated to have twice the impact on trade than tariff barriers,[2] although they are generally less understood and more difficult to address and remove.

With energy mostly neglected in conventional trade policy in the World Trade Organization (WTO) as well as in bilateral free trade agreements, this report aims to support policymakers in building an NTM-related agenda. The World Energy Council urges countries and the WTO to assess whether initiatives to phase out NTMs on products covered in the current plurilateral environmental goods tariff negotiations would be beneficial. While barriers to trade and investment in energy goods and services are starting to be addressed, the process of integrating the energy dimension to trade policy is still in its infancy. As the world's largest economies start to use private capital to finance low-carbon technologies, the elimination of tariffs and NTMs can be an equally powerful economic force.

1. United Nations Environment Programme, 2013: Green economy and trade trends, challenges and opportunities

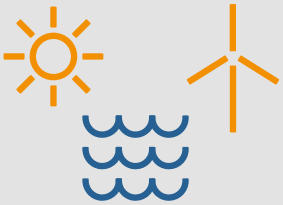
2. World Trade Organisation (WTO), 2012: World Trade Report: A closer look at non-tariff measures in the 21st century

TACKLING NON-TARIFF MEASURES

THE FACTS

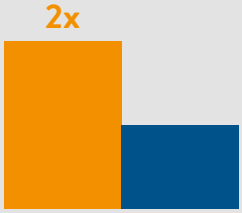
80 – 90%

UNCTAD estimates that 80% to 90% of all trade is affected by non-tariff measures.



$1 trillion

The global trade in environmental goods is worth $1 trillion per year.



WTO estimates that non-tariff measures have twice the impact of tariffs on global trade.

12 NON-TARIFF MEASURES AFFECTING INVESTMENT IN ENERGY

1 LOCAL CONTENT REQUIREMENTS

Demanding that businesses use local products and services hampers investment in R&D and limits transfers of low-carbon technology.

2 CUSTOMS PROCEDURES

These can be arbitrary and slow. Pre-shipment inspections (PSIs), for example, are a major inefficiency in the trade in energy and environmental goods.

3 CONFORMITY ASSESSMENT AND TECHNICAL REGULATIONS

Technical issues inhibit trade when they discriminate against certain countries, or operate in favour of larger corporations.

4 GOVERNMENT PROCUREMENT

Governments can restrict competition in bidding processes – for example, by favouring domestic suppliers, or imposing unequal compliance requirements.

5 TAX LAWS

Tax systems can distort trade by discriminating against foreign imports, or foreign investment in the energy sector. They can impose burdensome administrative and reporting obligations.

6 SUBSIDIES

Subsidies need to be carefully designed, so that resources are wisely allocated, and inefficient, unsustainable forms of energy are not encouraged.

7 INVESTMENT RESTRICTIONS

These can protect local industry and ownership, but they can also risk isolating a market from international expertise and cutting-edge technology. Foreign direct investment can also be reduced.

8 ADMINISTRATIVE LICENSING

If the process of obtaining permits for the energy sector becomes costly, time-consuming and opaque, it can deter investment.

9 PROCESS AND PRODUCTION METHODS

Attempts to control the trade in energy goods – for example, by discriminating between similar products on the basis of how they were produced or recovered – can have a negative impact on energy security.

10 INTELLECTUAL PROPERTY (IP) PROTECTION

R&D is a less attractive proposition in places where IP controls are weak. Counterfeiting, infringement and piracy need to be controlled to encourage innovation.

11 LEGAL SYSTEMS

Where legal systems are overly complex or opaque, trade, investment and finance are directly affected. Contracts and credit recovery, for example, need to be readily enforceable.

12 EXPORT CONTROLS

Prohibitions and limitations on exports reduce the availability of goods, meaning artificially inflated prices for energy-related products.

RECOMMENDATIONS

- For countries to address their energy trilemma and kick-start a low-carbon economy, they must understand and tackle non-tariff measures.
- If non-tariff measures are removed, investment flows and finance for energy-related goods will improve, particularly for low-carbon technologies.

KEY FINDINGS

The report highlights 12 significant NTMs directly affecting investments in the energy industry:

1 **LOCAL CONTENT REQUIREMENTS** should be carefully structured, otherwise they can hamper local and foreign investments in research and development, influence technology choice, limit low-carbon technology transfer and inhibit or delay energy projects due to a lack of local capabilities.

2 **CUSTOMS PROCEDURES** are the backbone of international trade. Their transparent and efficient application helps to avoid arbitrary and unnecessarily burdensome formalities in trading energy and environmental goods.

3 **CONFORMITY ASSESSMENT PROCEDURES AND TECHNICAL REGULATIONS** inhibit trade when they are duplicative and discriminate between countries, impeding market access for small- and medium-sized enterprises and start-ups.

4 **GOVERNMENT PROCUREMENT PRACTICES** inhibit competition when they favour domestic suppliers, for instance by including preferential qualification conditions in the bidding process, or imposing burdensome administrative compliance.

5 **TAXATION LAWS** can inhibit trade if they discriminate against foreign investments or imported goods, for example, by setting preferential tax rebates for domestic trade or posing non-transparent and onerous tax reporting obligations.

6 **SUBSIDIES FOR ENERGY TECHNOLOGIES** should be well designed, or they could result in the inefficient and unsustainable use of subsidised energy. Subsidies that inhibit trade could hamper economic growth, preventing efficient allocation of resources and production specialisation.

7 **INVESTMENT RESTRICTIONS** are often introduced to protect local industry and resource ownership. Yet, they can unintentionally prevent resources, expertise and available technologies being exploited to their full potential, and can have a negative impact on foreign direct investment.

8 **ADMINISTRATIVE LICENSING**, when leading to non-transparent, fragmented and lengthy permit procedures, can deter investments and result in unforeseen legal expenses.

9 **PROCESS AND PRODUCTION METHODS** can hamper international trade in the attempt to control, facilitate or prevent the import of energy goods. Although restrictions on goods produced by specific methods often aim to have a positive impact on environmental sustainability, they might negatively affect energy security.

10 **INTELLECTUAL PROPERTY PROTECTION**, if lacking or particularly weak, can be a major concern in developing energy goods and services due to widespread patent and trademark counterfeiting, and piracy of energy system software.

11 **COMPLEXITY OF LEGAL SYSTEMS** can affect the enforceability of contracts and credit recovery, impacting investments and the exchange of energy goods and services.

12 **EXPORT PROHIBITIONS AND LIMITATIONS** reduce the availability of energy products, forcing importing countries to face higher international prices.

IMPLICATIONS FOR THE ENERGY SECTOR

Reducing and eliminating trade barriers is key to catalysing the low-carbon economy and enabling countries to develop sustainable energy systems. It will have positive impacts on the energy trilemma – for example through reduced energy and technology costs, enhanced energy security, and transition to a low-carbon energy system.

Rather than introducing new measures, governments could find solutions in adjusting existing measures to spur competition, guaranteeing transparency, and correct failures in the trade system, such as resolving inefficiencies and discriminatory or duplicative measures.

The Council concludes that reducing NTMs related to low-carbon energy and environmental goods should be prioritised.

WORLD ENERGY COUNCIL

The World Energy Council is the principal impartial network of energy leaders and practitioners promoting an affordable, stable and environmentally sensitive energy system for the greatest benefit of all. We are the UN-accredited global energy body, representing the entire energy spectrum, with member organisations in over 90 countries.

Further details at **www.worldenergy.org** and **@WECouncil**

The full report can be found at **www.worldenergy.org/publications**

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