International trade is often regarded as a means to foster cooperation on sustainability worldwide. This coincides with the European Union’s (EU) carrot-approach to trade relations which entails the leveraging of access to its internal market to promote economic integration and political stability in the trade partner country (Heydon & Woolcock, 2009).

Since 2011, with the signing of the EU-Korea Free Trade Agreement (FTA), the EU has leveraged its soft power to embed sustainable development objectives in its FTAs (European Commission Services, 2017). Specifically, the Trade and Sustainable Development (TSD) Chapters house labour and environmental provisions and commitments made by the trade partners with the aim to further sustainable development globally through trade (Blot & Kettunen, 2021).

This briefing assesses the European Commission’s new approach to Trade and Sustainable Development (TSD) Chapters. It discusses the most notable aspects of the new TSD Chapter approach and identifies some missed opportunities to foster sustainable trade. Finally, this briefing takes stock of various stakeholders’ positions regarding the new approach, and proposes recommendations to be pursued in- and outside the TSD Chapters.

Reflections on the new approach to the TSD Chapters for greener trade

A rapid review of the new approach and stakeholders’ positions

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Author:
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Yet, despite the addition of this dedicated Chapter for sustainable development, the EU’s consumption and trade patterns still generate international negative external spillovers, which in turn hinders not only the trade partners’ progress towards the Sustainable Development Goals but also the EU’s (Lafortune et al., 2021).

While only a limited number of ex-post FTA impact assessments have been finalised, they often conclude that EU trade agreements have either a limited or negligible environmental impact in the partner country (European Commission, 2017, 2018). Indeed, the exact impact of EU FTAs on sustainability globally is difficult to quantify, due to several reasons such as the breadth of the definition of sustainability (i.e., including labour and environmental concerns), the availability of data and indicators, and the manner in which this impact can be attributed to an FTA (Blot & Kettunen, 2021; IEEP, Trinomics, IVM, & UNEP-WCMC, 2021).

Yet, civil society organisations and Member States have become increasingly aware of the EU’s free trade agenda, criticising the lack of effective safeguards for environmental action, human and labour rights embedded into the agreements (Nienaber, 2016; Toni & Tubiana, 2021).

In recent years, the efficacy of the TSD Chapters in delivering progress for sustainable development has been called into question. In response, and acknowledging its contribution to global environmental degradation embodied in its trade patterns, the European Commission published a new TSD Action Plan in June 2022, detailing twenty action points to be undertaken to ensure that EU FTAs deliver for the environment and sustainable development (European Commission, 2022).

Brief review of the new TSD approach

The contents of the new TSD approach can be classified into five categories, specifically, (i) leveraging FTAs for sustainability, (ii) enhancing the sustainability credentials of FTAs, (iii) empowering broader civil society, (iv) targeted actions for the Domestic Advisory Groups (DAGs), and (v) strengthening enforceability of environmental and social commitments (see Annex Table 1 for the full list of action points). For the brevity of this review, the most notable action points are discussed.

Overall, the new approach to the TSD Chapters is a substantial improvement compared to the existing 2018 TSD Action Plan and a definite step in the right direction to embed sustainability in EU FTAs. Some of the most important elements of the new approach include the strengthening of the TSD enforcement mechanism, the reinforcement of the role of the DAGs, and the enhancing of the sustainability credentials of the FTAs.

Concerning enforcement, building on the appointment of the Chief Trade Enforcement Officer and the launch of the Single Entry Point (SEP) complaints contact point, the TSD Chapter

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1 Consult (Blot, 2022) for a brief assessment and (Blot, 2023) for a thorough assessment of the new TSD approach.
improves the enforceability of the TSD Chapter by extending the FTA’s general state-to-state dispute settlement (SSDS) compliance stage to the TSD Chapter. This requires the Party in violation to inform how it plans to implement the expert panel’s decision within a predetermined timeframe, essentially securing action for compliance from the non-compliant Party.

Going further, the European Commission proposes the possibility of trade sanctions as a last resort for violations of the ILO fundamental principles and the Paris Agreement. These sanctions will most likely take the form of suspension of trade concessions, as quantifying failures to protect the environment in monetary terms remains an issue. Nonetheless, a sanctions-based outcome for a violation of TSD commitments can only be triggered by the SSDS, meaning no private or non-governmental organisation can file a complaint resulting in the suspension of trade concessions. Rather, these actors are to submit a complaint regarding a TSD violation or a market access barrier through the SEP system. The implementation of sanctions would follow an expert panel’s decision as well as further failure from the violating party to bring itself into compliance.

The extent to which the strengthening of the TSD enforcement mechanism will foster sustainability in trade partner countries remains to be seen. For example, a breach in the implementation of the Paris Agreement is worded as “any action or omission which materially defeats the object and purpose of the Paris Agreement.” However, without a set precedent of what action or inaction could be considered a breach, it is unclear how the European Commission will proceed to enforce the environmental commitments of the TSD Chapters.

Reinforcing the role of the DAGs is crucial due to their role which involves discussing and flagging potential TSD implementation issues to the European Commission. Previous assessments concluded that the EU DAGs faced several issues such as an underrepresentation of environmental stakeholders and insufficient resources to further investigate environmental and social concerns (Blot & Kettunen, 2021; Blot, Oger, & Harrison, 2022). Therefore, it is essential that DAGs receive adequate resources for their logistical support, capacity building and functioning, which in turn can incentivise environmental stakeholders to join the DAGs. The new approach not only addresses issues faced by the DAGs, but it also reinforces and clarifies their role in the FTA process.

Regarding the sustainability credentials of future EU FTAs, the European Commission proposes to introduce a tailored approach to the TSD Chapter provisions. This new approach would entail the identification of country-specific environmental and social priorities based on a more comprehensive Sustainability Impact Assessment (SIA), supported by civil society consultations. The findings of these SIAs and consultations would be taken up into the TSD Chapter with provisions to address these country-specific issues. Adequate resources would be provided to the SIA practitioners to ensure a qualitative environmental assessment.

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2 The Domestic Advisory Groups (DAGs) are a small group of business, labour, and environmental stakeholders tasked with monitoring TSD Chapter implementation once an FTA is in force (Mazzola, 2018).
Building on the country-specific assessment, the European Commission would negotiate, where appropriate, so-called “implementation roadmaps” with timelines and milestones for the delivery of TSD commitments. These roadmaps have the potential to accelerate progress towards achieving the SDGs when linked to international environmental frameworks (Blot & Kettunen, 2021).

Yet despite the efforts made by the European Commission to bolster the sustainability of its FTAs, the new approach to the TSD Chapters contains some gaps and ambiguities. For example, if the country-specific TSD provisions do not use stronger language than before, the enforceability of the provisions may remain an issue. Furthermore, the enforceability of the implementation roadmaps is also unclear because the roadmaps would be negotiated in parallel with the TSD Chapter, thereby not falling explicitly under any enforcement mechanism.

One key missed opportunity is the absence of pre-agreement efforts in the scoping phase of trade negotiations. Pre-agreement cooperation would commit parties to implement certain national policy frameworks pertaining to sustainability. Whether or not trade negotiations are successful, the pre-agreement efforts signal to EU trade partners that tangible efforts on sustainability are central to EU trade (Blot et al., 2022).

Second, there is no consideration of compliance with multilateral environmental agreements beyond the Paris Agreement. While the integration of the Paris Agreement as an essential element of future trade agreements is positive, the reality is that the scope is limited to the climate crisis. The EU should seek concrete commitments from its trade partners to tackle other environmental priorities linked to the SDGs such as protected areas and biodiversity conservation (Kettunen et al., 2021), sustainable forest management and restoration, and sustainable production and consumption through circular economy principles.

Third, some of the most ambitious points of this communication such as the mainstreaming of sustainability provisions, the tailored approach to the TSD Chapter provisions, and the outcome-oriented dispute settlement mechanism, will not apply to existing agreements. While this is less problematic for agreements with developed countries that often have similar levels of environmental regulation as the EU, the same is not true for some trade partners with specific environmental and social concerns.

Lastly, the new approach does not include a “ratchet-up” mechanism to take into account the ever-changing environmental reality, which would allow trade partners to revise and strengthen environmental commitments over time. The triggering of such a mechanism could be at the discretion of both trade partners, or linked to the progression of the “implementation roadmaps” (Blot et al., 2022).

**Stakeholders’ positions on the new TSD Chapter approach**

This section aggregates stakeholders’ positions on the new TSD Chapter approach. These positions were collected through stakeholder interviews, in addition to the publicly available position papers.
In general EU stakeholders commend the European Commission’s efforts on the new approach (Lange, 2022; Rodríguez-Piñero & Lange, 2022; TSD Platform, 2022; Winkler & Hansen, 2022). The most appreciated aspects of the new approach include the increased focus on the monitoring and enforcement of the TSD provisions, specifically, the reinforcement of the role of the DAGs, as well as the bolstering of the TSD enforcement mechanisms, especially the SEP.

Stakeholders encourage the closer cooperation between DGs to improve policy coherence between trade-relevant and domestic environmental policies. This is relevant in the context of both the EU’s autonomous trade policy measures and domestic environmental policies which will set new requirements and standards for goods and services sold on the EU market. Cooperation and dialogue aim to ensure partner countries’ understanding of, and compliance with these upcoming sustainability initiatives. Examples of such initiatives include the carbon border adjustment mechanism, the deforestation-free supply chains Regulation, and the Ecodesign for sustainable products Regulation (Halleux, 2022; Šajn, 2022; Titievskaia, Morgado Simões, & Dobreva, 2022).

Yet, stakeholders remain cautiously optimistic with respect to the promises made by the European Commission in the TSD communication. According to stakeholders, one of the main shortfalls was that some of the most significant changes approach to the TSD Chapter to enhance the sustainability credentials of EU FTAs would not apply to existing agreements. Moreover, the approach leaves room for interpretation of certain action points, such as discussed above concerning the applicability of the implementation roadmaps and the ground for enforcement of the Paris Agreement.

Some stakeholders mentioned that the new approach does not facilitate the unboxing and mainstreaming of sustainability provisions into the sector-specific chapters of the FTAs. Although the sustainability credentials of the TSD Chapters would improve with this new approach, it was remarked that as long as sustainability provisions remain largely in the confines of the TSD Chapter this would limit the potential to make FTAs sustainable at their core. Building on this comment, one stakeholder remarked on the missed opportunity of installing market access conditionality of certain goods to be linked with the implementation of TSD commitments.

Regarding TSD enforcement, stakeholders acknowledged that the EU’s more assertive stance to tackling sustainability issues through FTAs was encouraging. In particular, the clarified role and working of the SEP for stakeholders to file complaints for labour and environmental issues was commended. However, in the revised guidelines of the SEP, it states that the nature of the TSD violation must be systemic in nature, meaning it should not be an isolated case of non-compliance. At first glance this could limit the scope of violations that could result in a suspension of trade arrangements. The guidelines also clarify that systemic failures to apply laws or regulations aligned with TSD commitments would also constitute a violation.

In this context, some stakeholders said they would have liked to see the European Commission introduce a similar approach to dispute settlement as that featured in the US-Mexico-Canada (USMCA) trade agreement. The USMCA approach to labour dispute settlement is targeted and
outcome-oriented as it allows of the review of workers’ rights violations at the facility-level and the resolution provides specific actions to be undertaken to amend the situation in the facility (see Box 1 for more information).

**Box 1: The USMCA Rapid Response Labour Mechanism**

Hailed as a progressive and innovative approach to address workers’ rights issues through a trade agreement, the USMCA’s Rapid Response Labour Mechanism (RRLM), introduced in the Annex of the USMCA’s dispute settlement chapter (Ch. 31 Annex A), allows for the enforcement of workers’ rights such as free association and collective bargaining. The process is initiated by a partner countries’ submission of a request for review to determine whether there is a violation of rights. This mechanism differs from the strengthened enforcement in the TSD review (i.e., sanctions as a last resort for actions that materially defeat the objective of the Paris Agreement or violations of the core ILO conventions), in that there is the possibility to target specific violating facilities with penalties such as denial of entry of goods (USTR, 2022a).

The RRLM has also seen its first resolution at an auto parts facility in Frontera, Mexico in under three months since a review request was submitted. The resolution lists specific actions to be undertaken by the offending facility to address the violations and improve the facility’s labour rights framework (USTR, 2022b).

Although the introduction of the RRLM is a significant step forward for workers’ rights in the US-Mexico-Canada economic area, the USMCA’s dispute settlement does not tackle environmental issues in the same manner. While environmental disputes fall under the agreement’s dispute settlement chapter (Ch. 31) there is no mechanism to initiate an expedited review of potentials violations of environmental commitments (Hart, 2021).

**Conclusion**

This briefing discusses the most notable aspects of the new TSD Chapter approach and the main gaps identified by stakeholders. Though the new approach is regarded among EU stakeholders as a step in the right direction to address the impacts of FTAs on global sustainability challenges, there is still work to be done to ensure trade agreements harbour sustainability at their core.

While the enhancement of the sustainability credentials in the TSD Chapter to address country-specific challenges is a positive addition, there lacks the commitment to negotiate similar provisions in sector-specific chapters to tackle industry-driven sustainability challenges. Moreover, the country-specific sustainability provisions will not apply to existing agreements,
thus eliminating several negotiated agreements already in place to be more ambitious regarding sustainability. Finally, it still remains to be seen how effective the strengthened enforcement mechanism will deliver for sustainability because some of the phrasings used are largely up to interpretation and the lack of a precedent for environmental disputes.

**Recommendations**

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<tr>
<th>Within the TSD Chapters</th>
<th>Outside the TSD Chapters</th>
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<tr>
<td>End the one size fits all approach to TSD Chapters and ambitiously address country-specific sustainability priorities.</td>
<td>Systematically leverage the SIAs and stakeholder consultations to identify country-specific priorities to be taken up into the TSD Chapters.</td>
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<td>Broaden the scope of multilateral environmental agreements considered an essential element to include environmental priorities beyond climate change, e.g., biodiversity loss, deforestation, and ambient pollution.</td>
<td>Pursue pre-agreement commitments from the trade partner that specific national policy frameworks pertaining to sustainability (such as progress on national labour laws) would be implemented irrespective of the final results of the negotiations.</td>
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<td>Upgrade environmental provisions with stronger language and introduce conditionalities on market access based on implementation of the TSD Chapter commitments.</td>
<td>Unbox sustainability provisions using stronger language and commitments into sector-specific chapters of the FTAs.</td>
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<td>Integrate lessons learned from the USMCA’s RRLM to improve the actionability and outcome delivery in the case of disputes regarding non-compliance with environment commitments.</td>
<td>Co-create the implementation roadmaps with local environmental stakeholders and integrate relevant international environmental targets where possible. Also clarify the enforceability of the roadmaps.</td>
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<td>Establish working groups on environment for sectors with high environmental impact, either within the TSD Chapter or in sector-specific chapters.</td>
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### Annex

#### Table 1: The TSD Chapter Action Points and their categorisation

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<tr>
<th>Categorisation</th>
<th>TSD Chapter Action Points</th>
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<tr>
<td><strong>Leveraging FTAs for sustainability</strong></td>
<td>(1) Step up cooperation with trade partners on compliance with international labour and environmental standards.</td>
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<td>(2) Support and incentivise reform processes and capacity building in trade partner countries through technical and financial assistance, when needed.</td>
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<td>(3) Use trade agreements to facilitate dialogue with partner countries.</td>
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<td><strong>Enhancing the sustainability credentials of FTAs</strong></td>
<td>(4) Tailored approach to TSD Chapters, identifying country-specific sustainability priorities, and early and better targeted impact assessments.</td>
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<td>(5) Negotiate detailed and time-bound roadmaps with milestones, where appropriate, with a clear role for civil society for the monitoring and implementation.</td>
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<td>(6) Prioritise market access for environmental goods and services.</td>
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<td>(7) Ensure (sustainability) impact assessments analyse all relevant FTA chapters, and identify which provisions and commitments are most likely to have an impact on sustainability issues.</td>
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<td><strong>Empowering broader civil society</strong></td>
<td>(8) Develop a comprehensive EU approach across services, using all available instruments to monitor the implementation of the TSD commitments.</td>
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<td>(9) Work with EU Delegations in their support and definition of best practices, as trade partners work with their local DAGs.</td>
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<td>(10) Support continuous involvement of the European Parliament in the implementation of TSD Chapters and assist it in its effort for regular country-specific discussions on trade and sustainable development.</td>
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<td>(11) Revise the Operating Guidelines for the Single Entry Point to increase transparency and predictability for stakeholders.</td>
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<td>(12) Ensure an inclusive consultation process with civil society through all stages of the lifecycle of FTAs.</td>
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<tr>
<td><strong>Targeted actions for the DAGs</strong></td>
<td>(13) Further strengthen the role of EU DAGs by providing resources for their logistical support, capacity building and functioning.</td>
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<td>(14) Increase involvement of EU DAG representatives in TSD Member States’ Expert Group meetings and TSD Committee meetings.</td>
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<td>Strengthening enforceability of environmental and social commitments</td>
<td>(15) Promote and facilitate interaction between EU and partner countries’ DAGs.</td>
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<td>(16) Foster transparency on the composition of DAGs.</td>
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<td>(17) Exchange views with EU DAGs on EU TSD-related technical assistance projects.</td>
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<td>(18) Ensure that the remit of the DAGs extends beyond TSD in order to cover the entirety of the FTA.</td>
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<td>(19) Further strengthen enforcement of TSD commitments in future agreements:</td>
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<td></td>
<td>(a) Extend the general state-to-state dispute settlement (SSDS) compliance stage to the TSD Chapter.</td>
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<td>(b) Involve DAGs in monitoring the compliance stage.</td>
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<td>(c) Extend the possibility to apply trade sanctions in cases of failure to comply with obligations that materially defeat the object and purpose of the Paris Agreement or in serious instances of non-compliance with the ILO fundamental principles.</td>
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<td>(20) Prioritise the enforcement of TSD cases based on the importance of the nature of the commitments at issues, the seriousness of the violation and the impact on the environment or workers.</td>
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