



**Asia-Pacific
Economic Cooperation**

**APEC WORKSHOP ON PROMOTING SMEs' INTEGRATION
INTO REGIONAL AND GLOBAL
ENVIRONMENTAL GOODS AND SERVICES MARKETS**

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Summary Report

I. Introduction

On 28 and 29 July 2016, the **APEC Workshop on Promoting SMEs' Integration into Regional and Global Environmental Goods and Services (EGS) Markets**, initiated by Viet Nam and co-sponsored by Japan, Malaysia, Mexico, Papua New Guinea, Peru, Russia, Chinese Taipei was held in Ha Noi, Viet Nam. Speakers and participants came from the ICTSD, OECD, representatives from the public and private sector, ABAC and academia from nine (9) APEC member economies (Japan; Malaysia; Mexico; New Zealand; the Philippines; Singapore; Thailand; Chinese Taipei; and Viet Nam).

APEC Workshop on Promoting SMEs' Integration into Regional and Global Environmental Goods and Services (EGS) Markets was aimed at the following objectives: (i) Provide the overview of EGS markets in the APEC region with a focus on identifying SMEs' obstacles in access to the EGS regional and global markets; (ii) Exchange good practices and experiences in supporting SMEs' integration into the EGS markets, including but not limited to facilitating SMEs' access to capacity building, incentive programs, information to EGS markets (regulations on import – export in the region, standards, taxes. etc.); and (iii) Provide a platform for APEC policy makers, regulators, officials and interested stakeholders to discuss measures to develop EGS markets for SMEs.

II. Background

In the 2014 Leaders' Declaration, APEC Leaders stated, "We reaffirm our commitment to reduce applied tariffs to five percent or less by the end of 2015 on the list of environmental goods that we endorsed in 2012 in Vladivostok...We welcome the work on capacity building on Environmental Goods (EGs) commitment implementation."

More recently, in the 2015 MRT Statement, APEC Trade Ministers reiterated, “We welcome progress in developing an action plan on liberalization, facilitation, and cooperation on environmental services which will contribute to sustainable and green growth and look forward to an outcome by November 2015. We recall the Leaders’ commitment of 2011 to increase utilization and dissemination of environmental goods and services (EGS), reduce barriers to trade and investments in EGS and enhance the capabilities of economies to develop their EGS sectors.” In line with that, the Environmental Services Action Plan is also in place.

Besides, the project is also aligned with the APEC 2015’s priority on “fostering SMEs’ participation in regional and global markets” and the newly-endorsed “Boracay Action Agenda to Globalise MSMEs.”

This project aims to bring about greater opportunities for SMEs in the APEC region to integrate into the EGS markets through sharing experiences of governments, business associations, etc., in facilitating SMEs in EGS sector as well as raising the concerns of the SMEs in EGS themselves, which in turn “enhance the capabilities of economies to develop their EGS sectors.”

The SMEWG Strategic Plan 2013–2016 identifies the working group’s mission of “Strengthening the participation and access to global markets for SMEs and MEs”. They also prioritize the need for enhancing SMEs and MEs capacity to internationalize and assist SMEs and MEs identify foreign business opportunities through a number of activities such as: increasing information on market access and opportunities, delivering strategies to facilitate SME’s participation in international business, implementing measures and programs to identify and address trade barriers facing SMEs and MEs.

In line with these, the proposal to hold the APEC Workshop on Promoting SMEs’ Integration into Regional and Global Environmental Goods and Services (EGS) Markets, was approved by APEC and held on 28 and 29 July 2016 in Ha Noi, Viet Nam. Themes covered during the two-day event included: (i) Overview of the regional and global EGS markets; (ii) Challenges, opportunities, critical issues for facilitating SMEs in environmental goods markets; (iii) Challenges, opportunities, critical issues for facilitating SMEs in environmental services markets; (iv) Taking advantages of trade agreements on place; (v) Experiences in promoting SMEs’ participation into regional and global EGS markets in terms of regulations, incentives, facilitation, critical issues, etc; and (vi) Case Studies of SMEs’ Integration into regional and global EGS markets

III. Discussion

Key Issues Discussed

Opening remarks

In the opening remarks, *Deputy Minister of Industry and Trade, S.R of Viet Nam, H.E. Nguyen Cam Tu* stressed that in the context of globalization and economic integration, trade liberalization of environmental goods and services (EGS) is becoming an increasingly important issue in multilateral and bilateral trade negotiations. Trade liberalization in EGS is being seen as a policy tool to support sustainable development and green growth of economies, especially in the context of rapid growth that has caused various environmental problems both at the local and regional levels.

According to the 2014 OECD's statistics, global trade for EGS accounts for approximately 4 trillion USD and is expected to reach 10 trillion USD by 2020, with a high rate of annual growth, about over 8% annually. For Viet Nam, EGS accounts for about 20 billion USD, which is 0.5% of the global market and ranks 33rd among the 50 leading countries in the EGS market.

In that trend, APEC is one of the regional fora that play a pioneering role in promoting trade liberalization for EGS. At the 20th APEC Summit in Vladivostok, Russia, the APEC Leaders have committed to reduce tariffs for the 54 items on the list of Environmental goods to 5% or less. This is a bold step by APEC which set the premise for the negotiation on environmental goods in WTO (EGA) starting from 2014, with the participation 14 members.

Bear in mind the typical characteristics and a huge proportion of SMEs in the APEC region, their participation in EGS markets is believed to not only play an important role for economic growth, but also contribute significantly to stabilizing social security, creating jobs and assuring the sustainable development of an economy.

In that line, He called for all the speakers, participants and experts to actively participate in the Workshop to share and discuss how to promote SMEs' participation in EGS markets; further exchanges of information and experiences sharing among APEC member economies aiming to promote policy cooperation

in the region, contributing to maintain social stability and common prosperity of the region.

Dialogue's sessions

Experts provided presentations on the following topics:

1. Session 1: Overview of the regional and global EGS markets

Mr Mahesh Sugathan, Senior Research Fellow, International Center for Trade and Sustainable Development (ICTSD): So far, there has been no universally accepted definition of environmental goods, therefore, it is quite challenging to liberalize environmental goods when negotiating trade agreements. However, there have been some trade liberalization initiatives with a focus on environmental goods. Under the framework of APEC, the member economies have identified tariff lines to liberalize environmental goods under 54 HS sub-headings. Related to the Environmental Goods Agreement (EGA)-Plurilateral Initiative, the list of 350 products are also being discussed. The final coverage and modalities are not yet determined but the possibility of “staging” of tariff liberalization is under consideration. The tariff reduction/elimination benefits (if yes) will be extended on MFN basis to all WTO members (including non-participating ones).

Mr Duncan Stewart, Director of Greenhouse Capital, New Zealand: From an investor centric view, he portraits an overview of the global green economy and SMEs integration into EGS markets. It is estimated that low carbon goods and services are worth about \$6tn by 2015. Some economies have well developed EGS markets, such as Finland in biomass & bio-fuels; Israel & Singapore in water technology; Korea in energy efficiency; China in solar & wind manufacturing; UK in energy efficient buildings; Sweden in bio-fuels & cleantech; and Denmark in wind manufacturing. New Zealand is also very promising for EGS thanks to R&D in technology and innovation, excellent commercial governance and robust legal framework. For SMEs to penetrate into EGS markets, they face a lot of challenges such as capital, access to market and capability (locating and retaining the right talent). It is stressed that innovation including management of the environment and capturing advantages of the economies are keys to help SMEs to better integrate into the regional and global EGS markets.

2. Session 2: Challenges, opportunities, critical issues for facilitating SMEs in environmental goods markets

Professor Lee, Tzong-Ru (Jiun-Shen) from the Marketing Department of the National Chung Hsing University Taichung, Chinese Taipei: He cites 2 SME cases of Banana Monkey and Fong Shuo with common points: providing professional, safe, quality, natural and healthy products; good branding; establishing own channels to communicate and educate customers. They face common challenges in capital/access to finance, skilled labours, lack of knowledge and approaches. On the other side, opportunities are still large since the government has the policy to promote eco-friendly product/company such as setting up KPI to evaluate how eco-friendly of the product/company and cooperating with universities to offer programs/courses to educate producers.

Ms Christina Timiliotis, Trade Policy Analyst Natural Resources Policy Division, Trade and Agriculture Directorate, Organization for Economic Cooperation and Development (OECD): It is evident that the opportunities for SMEs to engage in the EGS global value chains (GVC) are numerous. Participation in the GVC is apparently beneficial to SMES since they have the chance to access to cheaper inputs, as well as have output expansion and diversification as a result of access to new markets. However, their opportunities may be overlooked as a result of prevailing misperceptions (e.g. the scope of EGs or their sophistication).

3. Session 3: Challenges, opportunities, critical issues for facilitating SMEs in environmental services markets

Ms Christina Timiliotis, Trade Policy Analyst Natural Resources Policy Division, Trade and Agriculture Directorate, Organization for Economic Cooperation and Development (OECD):Services contribute significantly to the global economy which account for nearly 70% of the global GDP. Given its contributions, the OECD Services Trade Restrictiveness Index (STRI) launched in 2014 provides a snapshot of services trade barriers in 19 sectors across 42 countries, representing over 80% of global services trade, and shedding light on the requirements that traders must comply with when entering foreign markets. The STRI shows that foreign-equity limitations are most common in backbone infrastructure sectors, and that behind the border regulations related to licensing constitute considerable barriers to trade in professional services. The STRI also indicates that access to the public procurement market is particularly important for construction firms, and national treatment in relation to taxes and subsidies is

important in all sectors, but especially in transport and audio-visual services sectors; and restrictions on the movement of natural persons significantly hinder trade, particularly in skilled labour-intensive sectors such as computer services and professional services. It is concluded that environmental goods and services go hand in hand; and the internationalization of environmental services is a major determinant of SMEs' business performance. However, SMEs, more than MNEs, are disproportionately affected by the liberalization of trade in (environmental) services.

Mr Mitsutake Kudo, Ha Noi Representative Office, Japan NUS Co. Ltd: JANUS was founded in 1971 and remains as an environmental and energy consulting firm. They decided to establish a representative office in Viet Nam in 2015. The representative office plans to conduct market research, establish an information network, and support projects in Viet Nam. They have implemented many projects related to environmental and energy consulting business in Viet Nam, e.g.: the project “Preparation of Environmental Impact Assessment Guideline for Nuclear Power Plant in Viet Nam” (2011); “Feasibility Study on Introduction of Co-generation System Using Bagasse in a Sugar Factory” (2014); “Environmental Monitoring and Preparation of EMS for Metal Refining Plant” (2015); “Feasibility Study on Developing REDD+ project in Viet Nam” (2015); and “Environmental Due-diligence on Power Plant Project in Viet Nam” (2016). From JANUS's experiences in Viet Nam, it is believed that in order to develop business in Viet Nam, it is necessary to create good information sources, find good local partners for developing projects; find donors to implement FS and further activity, as well as carefully understand standards (goods and services required such as quality, technology and price).

4. Session 4: Taking advantages of trade agreements on place

Mr Mahesh Sugathan, Senior Research Fellow, International Center for Trade and Sustainable Development (ICTSD): Mr Sugathan focuses on four (4) trade initiatives and agreements that aim to liberalize environmental goods, namely: (i) APEC voluntary tariff-liberalization outcome; (ii) Environmental Goods Agreement (EGA); (iii) Trans-Pacific Partnership (TPP); and (iv) EU-Singapore FTA. In particular, the TPP is expected to eliminate 98% of tariff on trade in goods in the TPP region (chapter 2), if ratified. It is believed to bring about benefits to SMEs since it facilitates access to procurement markets. Moreover, website maintenance obligations by TPP parties increase transparency and access to information. Some binding obligations on competition policy and procedures will

benefit SMEs (e.g: procedural fairness in domestic competition law) but not subject to dispute settlement. From the four trade initiatives and arrangements, the benefits to SMEs are as follows: access domestic priorities on EGS value chains and evaluate whether existing trade arrangements (autonomous, bilateral, RTAs, plurilateral, WTO) addresses needs (for exports and imports); transparency, procedural fairness, access to important information; joint trading of environmental goods and environmental services means regulatory coherence is important-for clean energy goods linked with other domestic policies such as clean-energy policies and incentives; RTA membership could be an important signal for FDI; take maximum advantage of cooperation provisions on NTMs, capacity-building in trade agreements and effective implementation; learning from country best practices that have helped SMEs in EGS sector; mutual recognition initiatives on conformity assessment concluded separately or as part of trade agreements can help EGS SMEs.

Ms Christina Timiliotis, Trade Policy Analyst Natural Resources Policy Division, Trade and Agriculture Directorate, Organization for Economic Cooperation and Development (OECD): Ms Timiliotis focuses on how enterprises can take advantage of trade agreements by citing ones in place. It is the EU – South Korea FTA that reduces barriers to trade in environmental (and environmentally related) services (with Article 13.6); the Indian – Japan Agreement (Article 8); and the Japan – Switzerland Agreement (Article 9). Other agreements that aim to reduce barriers to trade in ancillary services include the FFA between Australia – ASEAN – New Zealand; EUCARIFORUM; EU – South Korea; India – Japan; and US – South Korea.

5. Session 5: Experiences in promoting SMEs' participation into regional and global EGS markets in terms of regulations, incentives, facilitation, critical issues, etc

Ms Tran Minh Ha, Former Director General, ICD - MONRE, Viet Nam: With years experiences in negotiating FTAs related to environmental issues, Ms Tran has shared Viet Nam's priorities and experiences in involving SMEs in EGS. Viet Nam has participated in negotiation of a number of bilateral and multilateral trade agreements (WTO, FTAs...) in which environment related issues (incl. EGS) have been addressed such as: FTAs with the European Union (EVFTA); European Free Trade (EFTA), Customs Union (VCUFTA), TPP, and others related. In the negotiating process, the proposed inclusion of environment &SD into formal negotiation contents have been addressed in all context of preparation, SMEs have involved from process of consultation; involved in many of the Government's

incentives and facilitation programs to support them during the implementation. The Law on Environmental Protection and its documents for implementation have been issued accordingly.

Mr Patrick Chua, Policy Officer of ABAC Philippines: Mr Chua provides an overview of ABAC efforts on facilitating MSMEs in general, EGS in particular. Under ABAC, the MSMEs Working Group Work Plan aims to help: facilitate MSMEs access to international markets and global value chains; promote innovation in MSMEs; build collaboration mechanisms between large firms and MSMEs; and strengthen the participation of Women in the economy. ABAC has also made joint efforts to promote EGS such as the Public – Private Partnership on Environmental Goods and Services (PPEGS); holding Public – Private dialogues (APEC and ABAC); involved in the APEC Services Cooperation Framework (APEC Services Competitiveness Roadmap); etc. ABAC Philippines is leading ABAC in promoting inclusive business models as a strategic way of integrating MSMEs into the global value chain through documenting cases of partnerships with large enterprises. Now on its second phase of the study, the project has already identified cases relevant to the EGS sector.

6. Session 6: Case Studies of SMEs' Integration into regional and global EGS markets

Ms Jeannie E.Javelosa, Co-Founder and Director, ECHOstore Sustainable Lifestyle, ECHOSi Foundation and Great Women, the Philippines: Ms Jeannie shares the story of ECHO, or the story of a successful EGS SME's integration into the regional value chains, which pursues sustainable development, greening supply & value chain, market access through retail & trade and inclusive business into GVC. Not only their products are friendly environmental, natural, organic, but their approaches, management and orientation are friendly environmental focused.

Mr Charuek Hengrasmee, Former President, Electrical and Electronics Institute (EEI), Senior Consultant, Thailand: Mr Hengrasmee shares a case study with a focus on E&E Industry in Thailand. It is challenging in integrating SMEs into EGS markets due to so many requirements (too many created in developed economies with less clarification and capacity building activity support given to developing ones, which cause a lot of burden to SMEs to access to EGS business and markets); technical standards (TBT); or differences in EGS definitions among the regions/economies. He also shares Thailand's experiences in capacity building activities such as efforts of standard harmonization;

conformity assessment; ongoing development of energy saving standards and labelling; changes in plant operating permit issuance (speedup and more convenient); special zoning and privilege promotion program to induce R&D investment; establishment of Innovation and Development Fund for MSEs; C/B program, etc. Besides, for the private sector (SMEs and MNC's Affiliates), training programs such as CT, LCA, EUP, CE mark, eco design, design for environment, etc. are provided; their participation in energy & green label programs are also facilitated.

Ms Nguyen Huong Tra, National Expert on EGS: She gives an overview of EGS industries and markets in Viet Nam, which is believed to be still immature with poorly designed environmental regulations and need a more robust enforcement. More capital and technical resources are needed for public environmental infrastructure and services. In Viet Nam, the vast majority of EGS revenue and employment is in services relating to water purification and delivery, sewage and wastewater treatment, and solid waste management, often collectively referred to as environmental infrastructure. Some commercial or institutional waste management services involve recycling, but the majority of recycling is performed by an informal recycling sector not quantified as part of the EGS industry in this study. While skills are developing in water, wastewater, and solid waste, and to an extent in environmental consulting and engineering (C&E), most sophisticated technical skills and environmental technology for pollution control, remediation, monitoring and analysis is imported.

It is concluded that robust environmental protection and management will also yield long-term benefits, both in protection of resources, lower healthcare costs, and enhancement of trade and investment opportunities and creation of new jobs in the EGS sector. Those benefits, however, are not always as obvious or immediate as the costs of protection. While Viet Nam has indeed begun the transition to an environmentally friendly growth model, and the commitment to this model at the highest levels of the government appears strong, making the transition a success will require broad and deep public understanding and support for the country's goals for the environment and sustainable development.

It should be mentioned that additional research would be useful to more fully characterize and assess Viet Nam's EGS markets and industries: i) review and assess the status of environmental policies; ii) further investigation of solid and hazardous waste treatment, including recycling, ecological services and remediation of contaminated land.

IV. Recommendations and Conclusions

The total market in environmental goods and services is expected to double to USD2 trillion by 2020, according to Environmental Business International. Increasing global energy demand, oil prices and efficiency and environmental protection requirements are driving this trend and have already resulted in a three-fold acceleration in trade within the sector over the last ten years. In that picture, according to reports by the International Trade Centre (ITC), half of the top ten global exporters of environmental goods and 12 of the top 30 are from APEC member economies.

It is visible that many individual APEC member economies have attempted to promote EGS in general and boosted EGS market access for their enterprises in particular.

On the other hand, APEC as a whole have made and realized their efforts to liberalize EGS markets into reality since they were committed to implementing their commitments to reduce tariffs on the 54 products in the APEC List of Environmental Goods to five per cent or less by the end of 2015. And it is worth noting that the APEC list of 54 products alone accounts for around USD 500 billion in world trade. Besides, the ongoing APEC Environmental Services Action Plan has also contributed significantly to APEC member economies' efforts of environmental services liberalization, which in turn brings about benefits not only to the relevant stakeholders but also to the growth and sustainability of the APEC region as a whole.

In that line, it is important that APEC take the leading roles in facilitating SMEs' integration in EGS markets since EGS markets are very promising for EGS enterprises, especially SMEs from the APEC region; and in turn, SMEs will remarkably contribute to the whole APEC region's growth and sustainability.

The Workshop directly addresses APEC's priorities through sharing information, experiences, best practices and case studies in EGS trade liberalization as well as enabling SMEs' integration in EGS markets.

Recommendations

Through the sharing of experiences and case studies among APEC member economies at the Workshop, speakers and participants have shared views on how

member economies' governments can support SMEs better integrate into regional and global markets. Recommendations focus on:

- Promote SMEs' access to markets by providing support in compliance to EGS standards and/or requirements, tariffs and non-tariff issues.
- Explore the possibility of conducting a survey/questionnaire on EGS to identify potential barriers and what should be done to facilitate SMEs' integration into EGS markets. Follow up on the survey's outcomes.
- Look up segments of value chains and support SMEs' integration into the segments. Sharing best practices is one efficient way to help SMEs to find out their potential participation into the value chains.
- Promote technology transfers in EGS.
- Develop a list of EGS related initiatives for information.
- Develop a checklist/guideline for EGS SMEs.
- Develop software to calculate the environmental, social and economic impacts of EGS.
- Consolidate all relevant information on EGS-related initiatives and projects, and possibly build on existing mechanisms to promote and facilitate MSMEs awareness and integration into regional and global markets.

Regarding how APEC could further its roles in building capacity for the member economies in promoting SMEs' penetration into EGS markets, here are some recommendations drawn from the discussion:

- Set up an online database of APEC EGS companies on a country-by-country basis, including services. This will allow (a) APEC to gather information, via surveys, directly from EGS businesses, (b) companies to gather market intelligence such as identifying possible competitors or collaborators, (c) allow companies to register for assistance with specific issues.
- Promote collaboration with other international organizations (UN, OECD, ...).
- More capacity building activities under APEC for the member economies, especially the developing ones.
- Create an APEC environmental/EGS certification program that is accessible and low-cost.
- Provide an online environmental compliance management system for APEC members on a country-by-country basis. This will provide a basis for encouraging improved environmental statutory compliance amongst member nation companies.