

# Renewable Energy Services in the GATS

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## WHAT ARE RENEWABLE ENERGY SERVICES?

Much attention is paid to trade in renewable energy goods, such as wind turbines, solar PV cells, or dual-use goods such as inverters. Services essential to the development and operation of renewable energy projects, however, tend to receive less attention, due in part to uncertainty about what constitutes such a service. Certain services are widely identified as renewable energy related activities. In the wind sector, for example, project development, financing, construction, engineering, transportation, and operation and maintenance are generally considered to be fundamental services in the lifecycle of a project. A company trying to provide any of these services in a foreign market may face barriers to entry which could ultimately raise project costs, delay implementation, or derail a project altogether. As such, it is important for services providers to be able to clearly understand existing commitments or barriers in a particular country, and for WTO members to expand commitments across the energy services spectrum.

In the World Trade Organization's General Agreement on Trade in Services (GATS), services are divided into general categories and then broken out in greater detail according to the Services Sectoral Classification List (W/120). In most instances, categories are defined according to the Provisional Central Product Classification (CPC). There is no single category for energy services, renewable or otherwise. Most of the services involved in the provision of renewable energy are found in various categories throughout the W/120. In the context of the Doha Development Agenda, the United States offered to liberalize commitments across a selection of services identified in a "checklist" of energy-related services (Table 1). This checklist has been adopted by several countries and is the most comprehensive approach toward liberalization of the energy services sector to date. Because energy negotiations in the WTO are source neutral – that is, the method of generation (e.g., coal, wind, biomass, etc.) is irrelevant – any commitments made to services in the checklist automatically apply to renewable energy unless specifically exempted.

<sup>1</sup>The work in this paper does not represent the views of the United States International Trade Commission or any of its individual Commissioners. This paper is the work of the author only, and not an official Commission document.

**Table 1 Checklist of energy-related services included in the U.S. GATS offer, 2003**

| CPC code  | Description   |
|---|---|
| 5115, 883   | Services incidental to mining   |
| 8675  | Certain related scientific and technical consulting services  |
| 887<br>861, 862, 863, 8672, 8673, 9312,<br>93191, 932   | Services incidental to energy distribution<br>Certain professional services, including<br>engineering and integrated engineering services                                   |
| 6111, 6113, 6121, 621, 622, 631, 632  | Distribution services, including commission<br>agents, wholesale trade, and retail trade services<br>that apply to fuels, related products, and<br>brokerage of electricity |
| 633, 8861-8866  | Maintenance and repair of equipment, except<br>transport-related equipment  |
| 865   | Management consulting and related services  |
| 511-518   | Construction and related engineering services   |
| 7131  | Pipeline transportation of fuels  |
| 7422  | Storage and warehouse services, particularly<br>bulk storage services of liquids and gases  |
| 8676  | Technical testing and analysis services   |
| Source: WTO, "Council for Trade in Services – Special Session – Communication from the United States – Initial Offer," TN/S/O/USA, September 4, 2003; and United States International Trade Commission, <i>Renewable Energy Services: An Examination of U.S. and Foreign Markets</i> , Publication 3805, October 2005, 1-4. |   |

### **HOW ARE RENEWABLE ENERGY SERVICES TRADED?**

Most services, including renewable energy services, are traded either across borders or through affiliate transactions. Cross-border transactions occur when money or information is sent from a supplier in one country to a consumer in another (mode 1), a foreign consumer enters the country of a supplier to consume the service (mode 2), or a foreign national enters another country to provide the service (mode 4). Affiliate transactions (mode 3) are conducted when a firm sells its services in a foreign market through an affiliated firm that it has established or acquired a presence in that market. When making commitments in the GATS, countries may choose to fully liberalize market access and/or national treatment across all four modes, partially liberalize by committing to select modes, or make no commitments at all.

### **HOW FREE IS TRADE IN RENEWABLE ENERGY SERVICES?**

Commitments on renewable energy services are not easily identified or quantified, and as such it is difficult to assess how liberal or restrictive a particular market may be. Further, factors such as policy environment, energy demand, and electricity prices are likely to be more influential in determining whether multinational companies enter a particular market regardless of existing barriers to trade. For that reason,

foreign presence in a certain market is not a good gauge of that market’s openness. However, it may be useful to examine the commitments that leading countries have made in a number of energy services sectors to get a sense of the general level of liberalization. For illustrative purposes, Table 2 catalogues existing commitments in the checklist categories most relevant to the provision of wind energy services by the 25 leading wind energy markets as measured by installed capacity (EU members are grouped together).

**Table 2 Snapshot of GATS commitments in services related to wind energy**

| Description  | United States | European Union | China | India | Canada | Japan | Australia | Turkey | Brazil | Egypt |
|--|---------------|----------------|-------|-------|--------|-------|-----------|--------|--------|-------|
| Certain related scientific and technical consulting services   | ●             | ○              | ●     | ○     | ●      | ●     | ●         | ○      | ○      | ○     |
| Services incidental to energy distribution   | ●             | ○              | ○     | ○     | ○      | ○     | ●         | ○      | ○      | ○     |
| Certain professional services, including engineering and integrated engineering services   | ●             | ●              | ●     | ●     | ●      | ●     | ●         | ●      | ●      | ○     |
| Distribution services, including commission agents, wholesale trade, and retail trade services that apply to fuels, related products, and brokerage of electricity | ●             | ●              | ●     | ○     | ●      | ●     | ●         | ○      | ●      | ○     |
| Maintenance and repair of equipment, except transport-related equipment  | ●             | ●              | ○     | ○     | ●      | ●     | ○         | ○      | ○      | ○     |
| Management consulting and related services   | ●             | ●              | ●     | ○     | ●      | ●     | ●         | ●      | ●      | ○     |
| Construction and related engineering services  | ●             | ●              | ●     | ●     | ●      | ●     | ●         | ●      | ●      | ●     |
| Technical testing and analysis services  | ○             | ●              | ●     | ●     | ●      | ○     | ○         | ○      | ○      | ○     |

● = full commitments  
 ● = partial commitments  
 ○ = no commitments

Most measures regarding the supply of services through the presence of natural persons (mode 4) are addressed in a member country’s horizontal commitments. For the purposes of this table, a full commitment is any commitment that grants full market access or national treatment to foreign individuals or firms that provide renewable energy services through cross-border supply (mode 1), consumption abroad (mode 2), and commercial presence (mode 3).

Note: This table is intended as a snapshot of commitments in the listed categories and is in no way a comprehensive assessment of GATS commitments. In many cases, commitments apply to only part of the sector and specific limitations may be in place. For full details regarding commitments, see the GATS schedules of individual countries.

Source: Compiled by the U.S. International Trade Commission from individual countries’ GATS Schedules of Specific Commitments

Services commitments vary widely in these countries, with developed countries generally offering a greater degree of liberalization. However, renewable energy firms are pursuing opportunities in all of these markets presumably because the conditions are favorable and the benefits to market participation outweigh perceived risks. GATS commitments may hold greater weight in countries where renewable energy is in its nascent stages. It is important to note that many of the commitments outlined in Table 2 were made as early as 1994, and in some cases current practices are more liberal than what is reflected in the GATS schedules. Such conditions make it even more pressing that countries update their commitments, signaling to services providers that the operating environment will not change unexpectedly.

### **WHY IS FREE TRADE IN SERVICES IMPORTANT?**

With increasing global demand for both energy and greenhouse gas-reducing technologies, it is important that renewable goods and services be made readily accessible to customers that want them. Because cost remains one of the most prohibitive factors to large-scale adoption of renewable energy technologies, any measures that reduce costs should be implemented. By making full commitments to trade in energy services, nations ensure that consumers in their markets have access to a greater selection of services at competitive prices, which in turn encourages more widespread adoption of renewable energy technologies. That may lead to further economic benefits such as the growth of domestic renewable energy goods and services firms that may eventually export to the world market.

### **WHAT IS THE FUTURE FOR TRADE LIBERALIZATION IN RENEWABLE ENERGY SERVICES?**

The Doha Round has been underway since 2001, but has yet to reach a satisfying conclusion. Despite the current impasse, efforts to move forward on the liberalization of trade barriers affecting climate-friendly goods and services are underway. Paragraph 31(iii) of the Doha Declaration specifically calls for reduction of tariff and non-tariff barriers to environmental goods and services, and it was under that mantle that the United States and the European Union drafted the Environmental Goods and Services Agreement (EGSA). The EGSA proposes a two-tiered approach to liberalizing those sectors that meet environmental policy goals, with particular emphasis on objectives laid out in the United Nations Framework Convention on Climate Change. The EGSA proposal specifically calls for members to commit to existing levels of market access and national treatment and undertake new liberalization to remove market access barriers on a broad set of environmental and climate-related services, including energy, construction, architectural, engineering and integrated engineering services. Negotiations are still in progress and it is unclear what this particular effort will yield. Further complicating matters, because the services instrumental to the provision of renewable energy are so deeply enmeshed in

the general energy services negotiations, it is unclear whether such services can be separated out for extraordinary treatment. At the WTO ministerial meeting in December 2009, trade ministers discussed efforts to fast track negotiations on climate-related goods and services, but no agreement has been made as yet. Some industry groups advocate the pursuit of environmental goods and services liberalization independent of the Doha negotiations, but at this point no plans exist to pursue multilateral liberalization outside of the WTO.

