

Briefing Paper

How Can Trade Rules Support Environmental Action?

Global Future Council on International Trade and Investment

March 2020



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Trade must be aligned with sustainable development

There is a vital need for countries to intensify environmental and climate action. Existing climate policies set us on a path to global warming of about 3°C above pre-industrial levels.¹ Human action threatens the extinction of 1 million plant and animal species, compromising food security and livelihoods.² Plastic and other forms of pollution are destroying land and water resources around the world.

In the past, observers clashed over whether trade and investment exacerbate unsustainable economic models. For example, some pointed to trade-related transport emissions and to the potential for a “race to the bottom” on environmental regulation to attract investment. Today, some stakeholders note that efforts to “green” value chains are being held back by trade rules that are not well-adapted to sustainable, circular business models. At the same time, extreme weather events are jeopardizing supply chains and infrastructure, while environmental damage is affecting certain trade-based livelihoods.

As such, conversations are shifting towards aligning trade and investment with the Sustainable Development Goals. Global trade has lifted millions out of poverty and accelerated innovation. Efforts must now be made to ensure that it supports environmental action, alongside continued growth. It is no longer a choice but, rather, an imperative to make international trade a central part of the solution to the environmental challenges we face.

This briefing summarizes efforts to date to use trade mechanisms to support environmental goals (see box) and outlines five ways in which trade rules could be further deployed for a greener global economy. These proposals are designed to respond to public- and private-sector leaders’ increased interest in how trade policy can deliver on global challenges. Suggestions are also made for better stakeholder engagement to improve the links between trade rules and sustainability action.

The impetus for action will only be credible, however, if governments reach a deal to end harmful fisheries subsidies this year at the World Trade Organization (WTO) as foreseen in SDG 14.6. One-third of the world’s fish stocks are over-exploited, yet an estimated \$22 billion in public spending each year continues to support overfishing.³ It is incumbent on trade policy-makers to show they can take action on important environmental goals.

What has been done to date?

At the WTO

The connection between trade liberalization and environmental protection has long been recognized. In the *Preamble to the Marrakesh Agreement Establishing the World Trade Organization*, governments expressly recognized that trade must be compatible with sustainable development and with efforts to protect and preserve the environment. A Committee on Trade and Environment (CTE) was established when the WTO was formed, and subsequent ministerial meetings have emphasized the importance of a trading system that supports sustainable development. In 2018, the WTO Director-General and United Nations Environment Executive Director announced plans for increased cross-policy dialogue. Rulings in WTO disputes have also largely supported members' pursuit of environmental policy goals, provided that the relevant measures were necessary and applied fairly and not in a discriminatory or arbitrary way.

Other efforts, however, have hit setbacks. Plurilateral negotiations for a deal to lower tariffs on environmentally friendly goods ultimately flagged as commercial priorities and domestic politics hit home. The CTE has proved a useful forum for exchange but not for ambitious action, as was perhaps originally intended. Much also remains to be done for trade policies to contribute to scaling up governments' climate change commitments.

Promisingly, however, there is renewed interest among global trade policy-makers in facilitating environmental goals. Select WTO Members are scoping the launch of talks on trade and plastic waste reduction,⁴ and another coalition will explore broader action on trade and the environment.

Through free trade agreements (FTAs)

Many regional and bilateral FTAs contain dedicated chapters on environmental issues, although the level of ambition and effectiveness varies. These chapters address a broad range of issues, such as illegal wildlife trafficking, enforcement of environmental laws, non-tariff barriers for environmental goods trade and commitments to improve air quality and reduce marine litter.

While some FTAs make many of the environmental commitments binding – the US-Mexico-Canada Agreement (USMCA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) contain mechanisms for resolving disputes on environmental provisions – others rely on domestic law enforcement. Moreover, many FTAs require only cooperation rather than binding commitments.

A few trade agreements explicitly mention climate change, such as the EU-Canada Comprehensive Economic Trade Agreement (CETA), which commits to cooperation on trade-related aspects of the current and future international climate change regime as well as renewable energy.⁵

Further, a group of six economies recently launched negotiations towards an Agreement on Climate Change, Trade and Sustainability (ACCTS). The agreement will reportedly remove tariffs on environmental goods, include commitments on environmental services, discipline fossil-fuel subsidies and provide guidelines for voluntary eco-labelling programmes. Since 2016, 21 Asia-Pacific Economic Cooperation (APEC) economies have committed to cut tariffs to 5% or less on a list of 54 environmental goods, designed to promote regional green trade worth approximately \$300 billion.⁶

Trade policy for the environment

1. Facilitate environmental goods and services trade, build circular economies

Easing the flow of environmental goods and services around the world will be critical in the coming years. High tariffs on clean-energy goods, for instance, add costs to sustainable development. Services trade restrictions also increase project costs in environmental areas. This includes direct environmental services such as waste disposal, as well as indirect services related to assembly, installation, testing, technical support and R&D of environmental products.⁷ In the context of global production networks, domestic rules hindering material flows across borders can impede efforts to expand the circular economy.

Actions to consider include:

- Governments to eliminate tariffs on environmentally friendly goods, including those related to renewable energy, energy efficiency, plastic waste disposal, materials recycling, controlling air pollution etc. Governments can do so unilaterally or as part of a group. Dialogue with industry will be key to identifying the latest technologies facing trade barriers.
- Governments to undertake commitments on environmental services and to agree on definitions to avoid ambiguity on the scope of obligations; remove barriers to the establishment of subsidiaries for the supply of environmental services; and address issues related to data transfer, which can hinder software updates, performance monitoring etc.
- Governments to make use of international standards for regulations affecting environmental goods and services. Encourage stakeholders in other fora to plug gaps in international standards, for example around

waste quality, where uncertainty about the presence of different chemicals in the discarded product presents a challenge for recycling in an era of global value chains. Promote transparent and non-discriminatory eco-labelling initiatives. Work to reduce trade barriers to product market testing (conformity assessment procedures) for green goods.

- Governments to engage with industry and other experts to identify specific challenges and implement solutions to boost circular economy practices. Action should include removing barriers to trade in remanufactured goods to extend product life, and facilitating trade in scrap and other recovered materials to be recycled and sold as secondary materials. Discussions with industry and other experts can inform policy-makers about “accidental” trade barriers involving complex or inconsistent rules between markets.

2. Report, reduce and eliminate fossil-fuel subsidies

G20 governments committed as far back as 2009 to limit and phase out inefficient fossil-fuel subsidies that encourage wasteful consumption.⁸ These subsidies come in many forms, including cash transfers, tax credits and rebates and lowered petrol prices. The International Energy Agency (IEA) estimates that such subsidies amount to \$526 billion a year.⁹ Even a partial scale-back could generate significant emissions savings. Cutting these subsidies would also increase the costs of producing virgin plastics and incentivize plastic recycling.

Actions to consider include:

- More governments to join WTO discussions on reforming inefficient fossil-fuel subsidies.

Thirteen governments committed to do so in 2017¹⁰ and a renewed push for reform is underway this year. Stakeholders could support this initiative.

- G20 governments have started a peer review of fossil-fuel subsidies due for completion in 2025,¹¹ which could be expedited. A WTO initiative could bolster transparency and reporting and facilitate the evaluation of trade and resource impacts from these subsidies. Industry can share how market incentives influence investment in cleaner technologies.

3. Dialogue on climate policies

Under the Paris Agreement on climate change, member governments have submitted nationally determined contributions and pledged to update these every five years starting from 2020. Cutting emissions can involve industry costs as well as opportunities. Some countries are concerned that lower ambitions abroad may undercut the competitiveness of home industries.

Actions to consider include:

- Encourage dialogue between trade and climate change policy-makers to ensure that there is alignment between trade rules and climate change goals.
- If using them, design carbon pricing regimes and border carbon adjustments that are consistent with international trade rules and fair to trading partners. Avoid excessive administrative burdens, particularly for small and medium-sized enterprises. The existing body of research on carbon pricing and border carbon adjustments should be considered alongside a non-technical trade audience and a broad group of stakeholders to achieve workable outcomes.

4. Advance green government procurement

Global public procurement is estimated at \$9.5 trillion each year.¹² Green government procurement policies can spur the use of green products and the development of clean technologies. For example, green government procurement policies could help to reduce

plastic pollution by eliminating the use of single-use plastics, while guidelines in certain markets set sustainability criteria for the procurement of vehicles, electricity etc.

The WTO Government Procurement Agreement has 48 signatories and has facilitated cross-border bids worth around \$1.7 trillion annually.¹³ Parties have also agreed to a work programme on sustainable procurement as part of an ongoing update process. Efforts will include identifying policies that encourage efficient and sustainable procurement, consistent with trade obligations – a useful exercise of the WTO's dialogue function.

5. Improve collaboration

International cooperation is essential in combatting the risks posed by environmental crises. Insufficient reference is made to trade in climate commitments.¹⁴ Most trade agreements, in turn, make scant reference to climate change, although recent commitments to boost clean technologies and renewables are welcome. There is an opportunity for greater collaboration among governments, business, scientists, and civil society to ensure that trade and trade policies are aligned with environmental sustainability goals.

Actions to consider include:

- Increase cooperation between trade, environment and climate change policy spheres to identify opportunities for win-win outcomes and address inconsistencies. In doing so, attention needs to be given to developing country needs and the commitment to a just transition for vulnerable workers.
- Governments to build alliances with a broad range of stakeholders, including experts, the private sector and civil society. Take inspiration from the climate community to establish a formal mechanism for input and action from non-state stakeholders in respect of global trade and environment discussions, as was done with the Lima-Paris Action Agenda.¹⁵ This would better connect international policy-making with companies' and non-profits' efforts to green value chains.

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