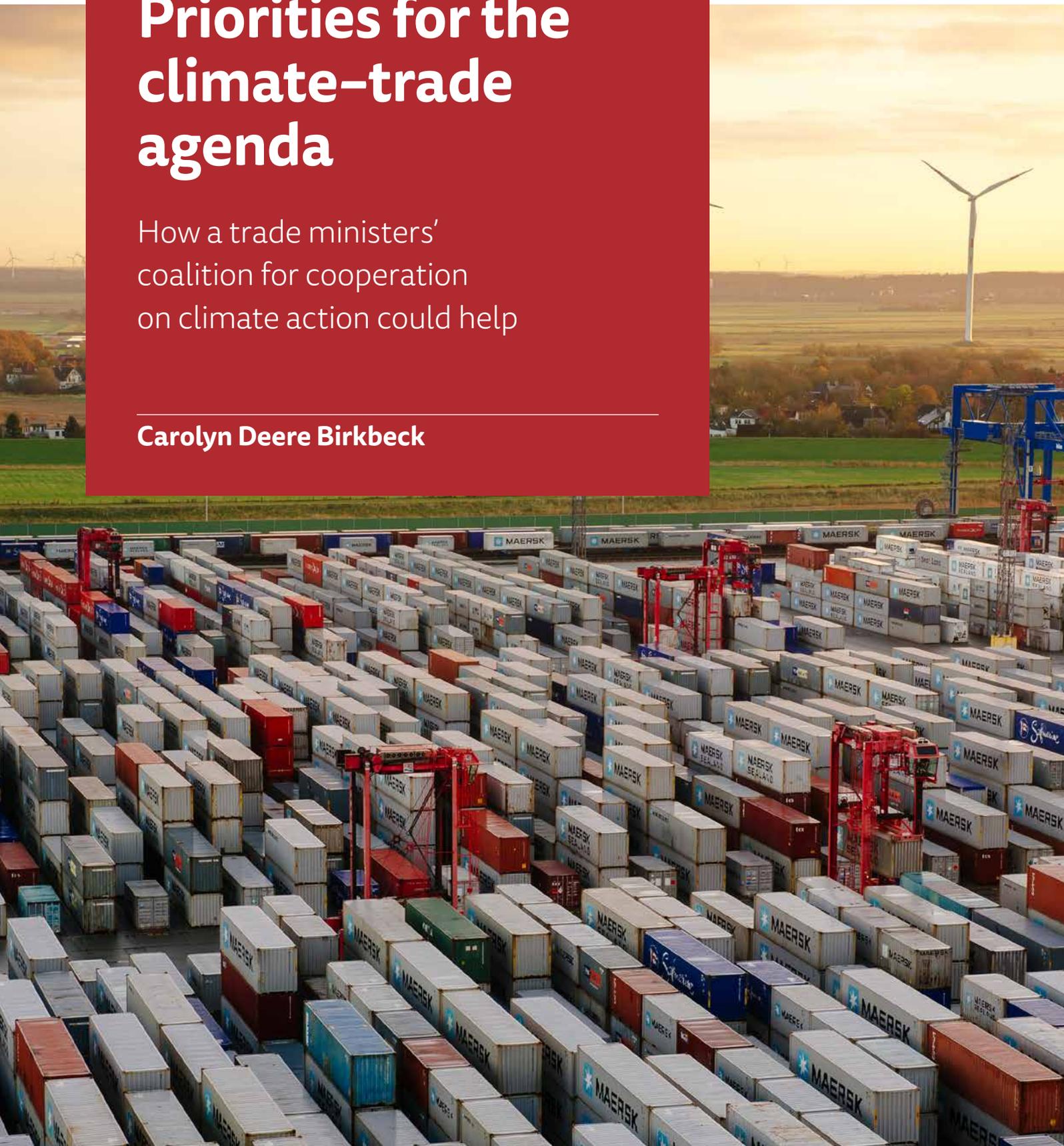


Priorities for the climate–trade agenda

How a trade ministers'
coalition for cooperation
on climate action could help

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Summary

Tackling the climate crisis demands an urgent transformation of the global economy toward sustainable production and consumption. Trade and trade policies have a central role to play in this effort. At the November 2021 UN Climate Change Conference all eyes are rightly now on concluding a successful COP26. This paper proposes a two-part package of proposals to address the nexus of climate change and trade that could be pursued alongside COP26 and in the months that follow.

First, harnessing the political focus on climate in 2021, this paper argues that governments should commit to enhanced international dialogue, coordination and action on trade and climate intersections through:

1. Ministerial attention to trade, climate and environmental sustainability on the official agenda of the 12th WTO Ministerial Conference (MC12) in late 2021 as well as through a complementary Ministerial Statement, co-sponsored by a majority of WTO Members, that recognises the need for the multilateral trading system to enable and support climate mitigation and adaptation efforts and the importance of multilateral cooperation on the interface of climate, trade and sustainable development goals; and
2. The creation of a trade ministers' coalition for cooperation on climate action to serve as focal point for the top-level dialogue needed to develop trade policy frameworks that support climate mitigation and adaptation, to solve tough and complex issues around competitiveness, fairness and transparency, and to advance coordination on trade and climate policy intersections. The coalition could help forge a shared vision of the highest priorities at the interface of climate and trade, how these should be pursued in policy terms, and how best to cooperate and connect the dots between different international processes.

Second, from among the many topics at the interface of climate and trade policymaking, the paper identifies six policy priorities at the interface of climate and trade that could be advanced in the final months of 2021:

1. Commitments to enhanced transparency, consultation and coordination on climate policies and regulations that impact trade, and on trade policies that impact the climate and decarbonization efforts, with special attention to addressing the needs of developing countries and unintended trade consequences;
2. Action to promote trade in climate-friendly goods and services, including at the World Trade Organization (WTO), with a focus on trade and supply chains that support climate mitigation and adaptation as top priorities;
3. Launch of talks on fossil fuel subsidy reform at the WTO that combine a focus on improved transparency, a just transition and a timeline for cooperation on concrete reform efforts;
4. Commitments to increase green aid for trade and finance to support trade-related climate mitigation and adaptation, and to promote climate-friendly economic diversification, production and trade in developing countries;
5. Adoption of a 2025 deadline for net zero official trade finance; and
6. Enhanced ambition and cooperation to reduce transportation emissions associated with international trade and decarbonize the transport sector.

Introduction

As governments work to prioritize climate action on a scale never seen before, questions abound on how to align trade and trade policy with climate ambition. At the UN Climate Change Conference (COP26) in November 2021, evidence of the intensifying climate crisis underlines the urgent need to ratchet up concrete commitments on climate change mitigation and adaptation, as well as on climate finance.¹ Commitments in each of these areas are currently far below what is needed to meet the Paris Agreement's goal of limiting global warming to well below 2°C, and preferably 1.5°C, above pre-industrial levels.² There is also growing acknowledgment that trade issues – while complex and often divisive – are directly relevant to climate action and cannot be ignored.

International trade in goods and services accounts for around 60 per cent of global GDP.³ As no country's economy operates in isolation, domestic efforts to decarbonize and implement climate policies will inevitably encounter trade policy issues. International cooperation will be vital to ensure the policy frameworks that underpin international trade support the implementation of the Paris Agreement.

The final months of 2021 present several political opportunities for governments and stakeholder organizations to foster the cooperation on trade policy needed to accelerate climate action. COP26 and the WTO Ministerial Conference (MC12) in November each offer diplomatic openings for cooperation on climate-trade intersections. Meanwhile, a range of ongoing bilateral and regional trade negotiations provide opportunities to sharpen the focus on trade policies that work for climate change mitigation and adaptation. The ongoing plurilateral negotiations for an Agreement on Climate Change, Trade and Sustainability (ACCTS) also provide an important pathway for identifying options for trade agreements that bolster climate action.

Aligning trade policy with climate ambition will demand political vision and a concrete policy agenda. It will also require high-level international cooperation, including through improved international processes for policy formation and coordination on trade and climate intersections.

This paper proposes a two-part package of proposals. First, it identifies six policy goals in regard to the climate-trade interface that could be advanced alongside and beyond COP26. Second, it argues that innovations on process are vital.

To strengthen multilateral cooperation on the climate-trade interface, it calls for governments to seize the 12th WTO Ministerial Conference (MC12) as a critical opportunity for Ministers to put discussion of climate and environment issues on the official conference agenda, and to forge a ministerial statement on trade and environmental sustainability, co-sponsored by the majority and full diversity of WTO members, in which governments recognise the need for multilateral trade cooperation on the climate crisis, and commit to focused, inclusive discussions at the WTO that tackle the challenges and opportunities at the nexus of trade, climate and sustainable development.

In addition, this paper calls for the creation of a trade ministers' coalition for cooperation on climate action.⁴ This coalition would serve as focal point

for the top-level dialogue needed to develop trade policy frameworks that support climate mitigation and adaptation, to solve tough and complex issues around competitiveness, fairness and transparency, and to advance coordination on trade and climate policy intersections across different international processes.

Why trade policymakers must catch up on the climate agenda

Trade policymakers can no longer ignore the climate crisis. This view is gaining traction for a number of reasons:

- Growing evidence of the negative impacts of the climate crisis on economies and trade, and of climate risks to international supply chains;⁵
- Accelerating efforts of major economies to implement climate policies, many of which have implications for international competitiveness, trade, and trading partners;⁶
- Rising recognition that ‘business as usual’ international trade contributes to climate change and is not compatible with achieving the international community’s climate goals;
- Increasing understanding of the role that trade can play to scale-up the diffusion and uptake of goods and services vital to climate mitigation and adaptation;⁷ and
- Awareness that transparency and cooperation on the trade and climate nexus is needed to guard against trade disputes, avoid carbon leakage and advance trade policies that support, not constrain, climate action;
- Calls from business groups for predictable and transparent trade policy frameworks to incentivize decarbonization and support the shift to more sustainable production;
- Calls from developing countries for greater trade-related support to adapt to climate change, boost their climate readiness,⁸ and compete in decarbonized international trade.

Governments do not yet, however, have a shared vision of what the highest priorities should be at the interface of climate and trade, how these should be pursued in policy terms and how best to cooperate.

Climate and trade links – and tensions – are growing

Achieving the Paris Agreement goals requires enormous transformation across an array of economic sectors in all countries. Given the international integration of supply chains and significance of trade in the global economy, national efforts to deliver on climate ambitions will necessarily face trade-related opportunities and challenges, as well as questions on appropriate trade policy frameworks.

As governments work to foster a clean energy transition, build green industries and transition to low carbon, nature-positive agriculture, a growing number of climate policies will have intersections with trade and trade policies, ranging from government procurement, subsidies and technology transfer to climate standards and labels.

At the same time, governments face stakeholder pressures to ensure that trade and trade policies are harnessed as an integral part of a multipronged global effort to combat climate change. A key concern that arises is carbon leakage, which refers to the possibility that producers and investors will relocate for cost reasons from countries with the strongest climate policies to those with less stringent requirements, which could lead to an increase in total emissions. While the risk of carbon leakage is hotly debated, and current evidence of such leakage is limited, there are concerns that this potential could grow as the implementation of climate policies advances.

Over the past year, the growing array of trade-related climate policies and measures has stimulated a surge of interest in the relationship between climate policy and trade rules. In 2020, the WTO reported that one-third of environment-related trade measures notified to the WTO were linked to climate action.⁹ In 2021, two of the world's largest economic actors put the climate-trade relationship squarely on the international agenda: the European Commission published its 'Fit for 55%' package (i.e., 55-per-cent reduction in carbon emissions by 2030, and net zero emissions by 2050), which includes its proposal for a carbon border adjustment mechanism (CBAM);¹⁰ and the US issued a new trade strategy, which underlined that 'putting the world on a sustainable environment and climate path' is a key US trade priority.¹¹

Meanwhile, all governments face powerful domestic constituencies that are fearful of paying the price of climate ambition. In the absence of a global price for carbon, governments are under pressure to defend key economic sectors from international competition as they undertake costly measures to decarbonize. At the same time, governments face pressure to ensure that environment-related trade restrictions taken by other countries are not thinly disguised protectionism. Developing countries are particularly fearful of the impacts of both climate change as well as climate policies on their trading prospects and economic development.

Governance challenges hamper climate-trade alignment

The governance challenges at the intersection of climate and trade are immense. There is poor policy coherence and coordination on trade and climate policymaking at the national level; weak political leadership at the international level; and a gap in appropriate political processes to facilitate an exchange of views and enable governments to develop a shared vision. In the global finance arena, government decision-makers have grasped the economic risks of climate change far more swiftly than in the trade area. The Financial Stability Board's Taskforce on Financial Disclosures and the Coalition of Finance Ministers for Climate Action are two examples of high-level efforts to promote financial decision-making that is aligned with the world's climate goals and reflects the risks of climate change.¹²

Although action on climate will require cooperation on trade, there is no regular high-level process or institutional anchor for intergovernmental dialogue, coordination and action on trade and climate linkages. There is no official 'climate and trade' agenda at either the WTO or the UN Framework Convention on Climate Change (UNFCCC).¹³ Some governments are working through bilateral, regional or plurilateral formats, including: in the Asia-Pacific Economic Cooperation (APEC) region (with a focus on climate-related goods and services); through the OECD's Joint Working Party on Trade and Environment (JWPTE) and the ACCTS negotiations; and through trans-Atlantic dialogue. Meanwhile, a constellation of international

organizations and processes are working on specific climate-trade intersections, such as the United Nations Conference on Trade and Development (UNCTAD), the International Organization for Standardization (ISO), the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO), albeit with limited coordination among them. In 2021, the trade and environment ministers of the G7 and G20 have acknowledged the importance of the UNFCCC and Paris Agreement, and the intersection of trade and climate change agendas.¹⁴



The absence of a clear process to anchor inclusive diplomacy and coordination on climate-trade intersections limits the scope for the worldwide cooperation essential for meaningful results, allows uncertainty and mistrust to fester, and risks neglecting key perspectives, especially those of developing countries

However, the absence of a clear process to anchor inclusive diplomacy and coordination on climate-trade intersections limits the scope for the worldwide cooperation essential for meaningful results, allows uncertainty and mistrust to fester, and risks neglecting key perspectives, especially those of developing countries.¹⁵ A key unresolved issue is where such multilateral diplomacy on climate-trade intersections should occur; views differ on whether the UNFCCC or the WTO is the 'right' setting for cooperation.

In 2021, the prospect for such cooperation is deeply intertwined with wider challenges facing international climate diplomacy. Although the return of the US to the Paris Agreement is a positive development, the UK and Italy – co-hosts of COP26 – face an uphill battle to secure sufficiently ambitious nationally determined contributions (NDCs) from the world's governments. Developing countries express frustration over unfulfilled promises of financial support for climate change mitigation and adaptation, despite the developed countries' historic responsibility for the climate crisis (see Box 1).¹⁶ In this context, no government has expressed a strong political appetite for adding trade issues to an already full COP26 negotiating agenda, although some trade issues will arise in the context of negotiations on Article 6 of the Paris Agreement (see Box 2), and the EU's CBAM proposal is expected to spur some discussion of trade-related climate policies at COP26.

Box 1. Contributions to the climate crisis

The top 10 emitters of greenhouse gases in 2019 were China, US, the EU 28, India, Russia, Japan, Brazil, Indonesia and Canada followed by Mexico.¹⁷ In 2019, 10 countries are responsible for more than two-thirds of global emissions. By contrast, the world's 47 poorest countries (with 12 per cent of the global population) together contribute less than 1 per cent of global carbon dioxide (CO₂) emissions.¹⁸

Box 2. The Paris Agreement

The Paris Agreement goals: By ratifying the 2015 Paris Agreement on climate change, 191 of the 197 parties to the UNFCCC committed to 'holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels'.¹⁹

Nationally determined contributions (NDCs): The Paris Agreement requires all participating countries to set national greenhouse gas emissions reduction targets in their NDCs, with the targets to be 'ratcheted' up every five years.

Common but differentiated responsibilities and respective capacities: All parties to the Paris Agreement have an obligation to mitigate greenhouse gas emissions, but the extent of mitigation efforts and the pace of ratcheting up are differentiated, in line with the principle of 'common but differentiated responsibilities and respective capabilities.' The provision of adequate assistance to enable developing countries to meet climate targets is widely recognized as key to unlocking the ambition of the Paris Agreement.

Article 6: This article is intended help countries to raise their ambitions and achieve reduction targets through voluntary approaches to international cooperation.²⁰ Article 6 has a 'trade dimension' in that it covers carbon markets, such as those that link international emissions trading systems (ETS) (where two or more countries transfer emission reduction credits) or the international trade of emission reduction credits achieved through specific carbon offset projects.²¹

On the trade diplomacy side, the prospects of cooperation on climate also face a fraught political context, especially as many governments are struggling to address the drastic impact of the COVID-19 pandemic on trade and investment, and to respond adequately to trade tensions about access to vaccines. Geopolitical factors and concerns about competitiveness make the political economy of climate action in the international trade policy arena even more daunting. At the WTO, Members have not yet established any climate-related goals, and the range of political and institutional challenges it faces mean that multilateral consensus on any issue will be tough to reach in the near future. Indeed, a number of WTO Members argue that the UNFCCC, and not the WTO, is the right forum for climate discussions and are likely to block any multilateral effort to establish an official commitment to take up climate issues at the WTO.

In a promising move, the WTO Director-General has expressed commitment to work in support of the Paris Agreement and climate action²² and a group of 55 WTO members has sponsored the launch of Trade and Environmental Sustainability Structured Discussions (TESSD) at the WTO,²³ spurred in part by the goal of establishing a process for dialogue and cooperation on climate and trade intersections. While talk of a 'climate and trade deal' or of rewriting global trade rules to align with climate goals is unrealistic in 2021, there are many questions that require detailed study and attention, including:

- Which trade flows and trade policies contribute most to the climate crisis, and conversely, how do the climate crisis and climate policies impact trade?
- Which trade flows and policies could help address the climate crisis?
- How could trade policy frameworks incentivize companies to reduce the climate impact of international supply chains, and shape them as a force for decarbonized, sustainable production and consumption? What combination of incentives and penalties can best drive meaningful climate action? And how can trade

policy frameworks support climate action in ways that address concerns about international competitiveness and support wider sustainable development goals?

- How can governments manage the interplay of different regulatory approaches to climate action and resolve tensions where they arise?
- How can we boost public and private financing for decarbonized, sustainable trade as well as trade-related climate change adaptation, especially in developing countries?

The fact that these questions have nuanced answers and reveal politically complex challenges cannot, however, be an excuse for sidestepping the need to grapple with climate and trade intersections; the intensity of the climate crisis – and the fact that success will not be possible without international cooperation – means that we have no choice but to try harder to identify and pursue strategic, impactful and faster ways forward.

This paper proceeds in four parts. Chapter 2 reviews the interactions between climate change and trade, as well as between policy-making and diplomacy on trade and climate. Chapter 3 identifies six areas for climate-trade cooperation that would be politically feasible to advance, starting in 2021. Chapter 4 concludes with recommendations on how governments can start to address both institutional and policy challenges in tandem in 2021.

Climate and trade interactions: the state of play

This chapter reviews the interactions between climate change and trade, as well as between policy-making and diplomacy on trade and climate.

What is at stake in climate-trade interactions

Across the world, businesses are expressing concern about growing climate impacts on international supply chains. In 2020, for instance, a study compiling feedback from more than 8,000 companies across all stages of supply chains, found that the total financial impact of environmental risks (climate change, deforestation and water insecurity) these suppliers expected in the subsequent five years amounted to some \$1.26 trillion.²⁴ Many major international companies, especially in the finance, investment and insurance sector, recognize that environmental and climate shocks are a growing risk for profitability and international supply chains. Globally, the sectors most affected by climate change are agriculture, fisheries and tourism; but the impacts are felt across a range of sectors, food systems and supply chains (see Box 3).²⁵

In 2021, UNCTAD reported on the vulnerabilities of developing countries and their trade in the face of climate change. The report emphasized that 'climate change, and response policies designed to mitigate it, will have different and complex effects on world markets and trade affecting productivity, transportation costs, competitiveness, sectoral comparative advantages and trade policies'. It highlighted that bolstering climate resilience and readiness of developing countries would require more finance for adaptation and economic diversification, and that foreign exchange earned through trade may also be key to countries' ability to finance environmental protection, including climate transition efforts.²⁶ A 2019 assessment found that countries in Africa were the least resilient to climate change, followed by Latin America, the Middle East, Eastern Europe and Asia-Pacific.²⁷ Overall, small island developing states and the poorest least developed countries are the most vulnerable to the changing climate, and the least well-resourced to manage its impacts. Climate change is especially daunting for small island developing states and low-lying coastal states, where sea-level rise and more frequent and severe hurricanes, floods and storms threaten local economic activity and export revenue, food security and trade-related infrastructure such as seaports.²⁸

The climate crisis also affects trade by spurring important shifts in business decisions, technological strategies and consumer preferences. Over the past decade, for instance, the push for climate action has stimulated significant innovation and price drops in the renewable energy sector (such as for solar panels and wind turbines)²⁹ and electric vehicles,³⁰ boosting trade in both. Across the world, demand for essential climate technologies, such as energy efficiency technologies, is also generating important new trade opportunities.

Box 3. The impacts of climate change on agriculture, trade and food systems

Climate change will have uneven impacts on agriculture, improving production conditions in some places while negatively affecting others, which in turn will impact patterns of international agricultural trade.³¹ Rising temperatures can reduce productivity, as can natural disasters (such as floods and droughts), with knock-on effects on exports. These factors will make some countries more reliant on international trade to meet food security needs. Food production in countries in low latitudes (and which therefore have warm climates) will be especially hard hit, many of which already suffer from poverty, food insecurity and malnutrition.³² Through its impacts on ocean temperatures and ecosystems, climate change will also cause significant changes in the availability of fish and fish products, with important consequences for trade and for communities dependent on the fisheries sector for their livelihoods and food security.³³ In the aquaculture sector, climate change-related extreme events, such as floods, can provoke losses of production and infrastructure, while rising temperatures can increase risks of diseases, parasites and harmful algal blooms.³⁴

How trade affects the climate

Trade plays a significant role in each of the economic sectors that have the highest greenhouse gas emissions and the greatest need for reform – namely energy, transport, construction, agriculture and forestry, iron and steel, and chemicals (see Table 1).³⁵ For each of these sectors, 10 to 20 major companies dominate global production and trade.

An obvious climate impact of international trade is the greenhouse gas emissions arising from international trade-related transport – by land, sea and air (see Table 1). Trade is also a driver of expanding production in key sectors with high climate impacts. Trade in response to growing demand for agricultural commodities, for instance, is a driver of deforestation, emissions and land-uses changes that exacerbate the climate crisis.³⁶ Foreign demand is also expanding production of energy-intensive natural resource extraction and chemical production. And trade is the conveyor belt for the movement of a range of high-emission products around the world (such as trade in new and second-hand vehicles and household appliances that do not use the best available, low carbon footprint technologies).

A related issue is the emissions of carbon and other greenhouse gas that are embodied in goods and services traded across borders.³⁷ A range of methodologies are being developed and tested to capture the greenhouse gas emissions embodied in exports and imports when calculating a country's climate impact.³⁸ In 2016, for instance, some 46 per cent of the UK's global carbon footprint was estimated to arise from emissions released overseas to produce goods for UK consumption, such as processed food, clothes and electronics.³⁹ In many European countries, imports account for more than 30 per cent of their domestic emissions, meaning that Europe's total consumption-based emissions are significantly higher than its territorial emissions.⁴⁰ While it is common to note China's rising per capita CO₂ emissions, Europe's per capita CO₂ emissions are actually higher once China's export emissions are deducted and attributed to the country of final consumption.⁴¹

Trade can also affect the climate positively through its role as a vehicle for the dissemination of essential climate technologies and other climate-friendly goods and services around the world. The clearest example has been the role of international trade in enabling the global diffusion of renewable energy technologies

and expanding markets in ways that encourage innovation, enable economies of scale and lower the price of technologies required to decarbonize economies.

Table 1. Greenhouse gas emissions-intensive trade sectors

Energy	<p>The energy sector is the leading source of global greenhouse gas emissions.⁴² The largest and most dominant regional exporters of energy sources (e.g. oil, gas and coal products) are the Middle East (Saudi Arabia, United Arab Emirates, Kuwait, Iran) and North Africa (including Nigeria and Algeria). Russia was the single greatest energy exporter in 2018, followed by Saudi Arabia, Australia, Indonesia, Canada and Norway. South Asia is a net importer of energy, importing approximately one-third of the energy it consumes.⁴³ Countries trading the most in energy services, such as electricity, are China (763 million tonnes of oil equivalent (mtoe)), Japan (368 mtoe), India (361 mtoe), South Korea (251 mtoe) and Germany, with Italy, France, Turkey, Taiwan and Spain also in the top 10, but trading less than 120 mtoe each.⁴⁴</p>
Agriculture	<p>Trade plays a central role in the agricultural sector and almost one quarter of total greenhouse gas emissions over the last decade were derived from agriculture and land-use changes associated with agricultural activities.⁴⁵ CO₂ and methane emissions arise from agricultural production processes (e.g., energy used for irrigation or methane emissions from livestock). Land-use changes to extract or produce commodities and agricultural goods are also associated with deforestation, reducing climate resilience and undermining nature-based solutions to climate mitigation. Since 1995, the value of global agri-food trade has doubled, reaching \$1.8 trillion in 2018 (almost 10 per cent of the total value of global trade that year), while the volume of agricultural trade has tripled.⁴⁶</p>
Steel and cement	<p>The steel and cement industries are growing sectors of the global economy and significant sources of CO₂ emissions. Steel represents 6 to 8 per cent and cement 6 per cent of the CO₂ emissions from global energy system combustion and industrial processes.⁴⁷ Reaching net zero CO₂ emissions for these sectors will require reducing demand through increased material efficiency, more recycling and stronger recycling capacity, and decarbonizing production processes.⁴⁸</p> <p>Overall, China is the world's largest cement producer, accounting for about 55 per cent of global production, followed by India at 8 per cent.⁴⁹ The leading cement manufacturers, many with operations across the globe, include: China National Building Material, CRH (registered in Ireland), LafargeHolcim (Switzerland) and HeidelbergCement (Germany). The top exporters of cement in 2019 (by value) were Vietnam, Turkey, Thailand, Canada, Germany, Spain, China, Japan and Saudi Arabia.⁵⁰</p> <p>In the case of steel, the largest exporters were China (69 million tonnes (mt)), Japan (36 mt), Russia (33 mt), South Korea (30 mt), and the EU (28 mt), followed by Turkey, Ukraine, Brazil, Taiwan and India, each with more than 10 mt in 2018.⁵¹ For stainless steel, 25 per cent of global production in 2019 was exported, reaching a value of \$1.9 billion.⁵² In 2019, the top 15 exporters of stainless steel accounted for more than 93 per cent of trade for this sector, with the top 10 being the UK (23.4 per cent), Indonesia (22.6 per cent), Sweden (11 per cent), Italy (5.3 per cent), the US (5.2 per cent), Austria (4.9 per cent), Spain, Germany, France and Taiwan.⁵³</p>
Shipping and aviation	<p>Emissions from the transport sector – shipping, aviation and road transportation – are an important contributor to climate change, together accounting for around 14 per cent of global CO₂ emissions over the last decade (with road transportation, discussed below, contributing the most to this).⁵⁴ The most important sources of trade-related transportation emissions are shipping (around 90 per cent of global trade is carried by sea)⁵⁵ and aviation. In total, shipping and aviation emissions in international territory are estimated to comprise 2.2 per cent of total GHG emissions.⁵⁶ A key monitoring challenge for shipping and aviation emissions is the difficulty of standardized methodologies for determining which portion of emissions can be attributed to international or domestic transportation – and then to which country such emissions should be attributed. Notably, passenger flights accounted for 85 per cent of aviation emissions in 2019, and between 2013 and 2019 passenger air traffic increased nearly four times faster than fuel efficiency improved.⁵⁷</p> <p>The emergence of new Arctic shipping routes in the wake of receding polar ice is stirring up geopolitical concerns as well as debates on safety and environmental impacts, and the particular challenges that 'black carbon' (or soot, which is a potent contributor to climate change) present for the Arctic environment.⁵⁸</p>

Road transport Emissions from road transport accounted for 18 per cent of total global greenhouse gas emissions in 2016. Although most of the road transport emissions occur nationally, a portion is related to international trade, especially in regions where countries have tightly integrated economies.⁵⁹ Most action on transport emissions occurs nationally. The UK, for instance, has pledged to bring forward a ban on petrol – and diesel-fuelled cars to 2035.⁶⁰ However, it is recognized that increasing trade, especially efforts to boost intra-regional trade, such as in Africa and Central Asia, will require a focus on to low-emission regional land transportation systems. In the trade arena, recent studies have highlighted the climate impact of trade in highly polluting second-hand vehicles.⁶¹ There is also growing interest in increasing trade in electric vehicles and the trade dimensions of ensuring access to raw materials for batteries for them.

Chemicals The chemicals and petrochemicals sectors (e.g. plastics, fertilizers and pesticides) are significant contributors to greenhouse gas emissions⁶² and are highly traded internationally. In business-as-usual scenarios, and taking into account anticipated reductions in emissions from other sectors, CO₂ emissions from the plastics sector, for instance, are expected to increase by 50 per cent by 2030, rising to account for 20 per cent of total oil consumption and 15 per cent of the global annual carbon budget by 2050.⁶³ In Europe, plastics rank in the top four largest sources of greenhouse gas emissions from materials production (alongside steel, aluminium and cement).⁶⁴ Overall, the total value of the global plastics trade – combining trade in primary plastics, intermediary plastics goods, final manufactured plastic products and plastic wastes – reached at least \$1 trillion in 2018 (5 per cent of global merchandise trade).⁶⁵

Policy and diplomacy interactions on climate change and trade

The past several years have seen three significant game-changers in favour of climate action: Europe's Green Deal, China's Net Zero commitment, and the US's return as a player in global climate diplomacy. While the group of countries with national net zero commitments is growing – including the UK, Japan, South Korea (all aiming for 2050), and China (2060)⁶⁶ – reaching the Paris Agreement goals will require distant mid-century pledges to be brought forward and ambition increased significantly beyond net zero (see Box 4). At the International Climate Summit in April 2021, the US raised the bar in terms of the target dates, pledging to a 50 to 52 per cent reduction by 2030 of economy-wide net greenhouse gas emissions from 2005 levels.⁶⁷



As governments work to implement policies to reach and exceed the Paris goals, they will encounter a range of intersections between trade and climate policy-making and diplomacy

As governments work to implement policies to reach and exceed the Paris goals, they will encounter a range of intersections between trade and climate policy-making and diplomacy. This section introduces ways in which trade is already on the agenda of climate diplomacy and climate is on the trade diplomacy agenda. Table 2 provides a snapshot of the array of topics that arise in discussion of climate-trade policy nexus. While a full review of each of these is beyond the scope of this paper, Part 3 outlines a subset of topics on which it is proposed governments could make some immediate progress in 2021–2022. Annex 1 provides a brief synopsis of those topics not addressed in detail in the paper.

Box 4. Beyond net zero and distant targets

The 2021 IPCC assessment emphasizes that more rapid and more aggressive efforts to cut emissions are crucial. Amid rising concern that distant net zero targets from governments and business risk postponing action, there are calls for frontloading action and for clearer plans about how commitments will be translated into action. There are also calls for moving beyond net zero commitments toward carbon-negative strategies, where countries and businesses remove more CO₂ from the atmosphere than they emit.

While CO₂ is the key target for climate action, reducing other greenhouse gas emissions, such as methane and hydrofluorocarbons (HFCs), could yield a rapid impact.⁶⁸ To advance carbon-negative strategies, diverse technological options for capturing carbon from the atmosphere are also in development. At present, however, no carbon storage technologies are deployed at scale and many provoke considerable controversy.⁶⁹ Further, while many climate scientists see carbon storage as a vital part of the strategy for tackling climate change, they also underline that this pathway should not distract attention from the urgent need for all sectors to cut emissions.⁷⁰ There is also a growing focus on nature-based solutions, such as reforestation, afforestation and nature restoration to support carbon sinks.

Meanwhile, there are efforts to boost the credibility and impact of business efforts to achieve net zero emissions in their operations and across their international supply chains. Climate activists emphasize the need to assure the credibility of the growing range of net zero commitments that are based on carbon offsetting projects. Such projects range from investments in emissions reductions in other sectors to creating natural carbon sinks (through afforestation) and conservation of nature areas that abate carbon. Whistle-blower and grievance mechanisms have been proposed that would enable stakeholders to lodge complaints about voluntary offset projects that do not fulfil their stated climate goals. The UN-backed Race to Zero initiative, for instance, is calling for interim targets that trigger immediate decarbonization efforts and stronger criteria on what kinds of projects, including carbon sink projects, can legitimately be included in net zero commitments.⁷¹

Table 2. Overview of topics arising in climate-trade policy discussions

Trade-related aspects of the Paris Agreement and in UNFCCC process
<ul style="list-style-type: none"> • Article 6 and carbon trading • Carbon offsets and carbon sinks • Response measures • Technology Mechanism • Mention of trade-related issues in NDCs and National Adaptation Plans (NAPs)
Climate-related trade measures at the border
<ul style="list-style-type: none"> • Liberalization of climate-friendly goods and services • Border carbon adjustments and carbon clubs • International coordination of emissions trading systems • Restrictions or bans on high emissions-intensity products (including through differential tariffs linked to compliance with climate-related standards or non-tariff measures) • Restrictions or bans on agricultural products associated with tropical deforestation • Reform of international energy markets and energy trade for a clean energy transition
Behind-the-border measures that link climate and trade
<ul style="list-style-type: none"> • Climate-related regulations, standards and labels (mandatory and voluntary) • Transparency and trade disciplines on fossil fuel subsidies • Greening trade rules (e.g., on subsidies and government procurement) • Investment rules for climate action • Technology transfer, intellectual property rules and licensing practices relevant to innovation on climate technologies as well as diffusion, adaptation and affordable access • Climate-related due diligence and supply chain requirements • Investment provisions that safeguard space for climate action
Using trade agreements to reinforce the Paris Agreement and its implementation
<ul style="list-style-type: none"> • Climate waiver at the WTO • Trade provisions on ratification and implementation of enhanced commitments under the Paris Agreement • Enhanced transparency of trade-related climate measures • Climate-related trade sanctions • Climate cooperation in trade and sustainable development chapters • Sustainability impact assessments that include climate impacts on trade, trade impacts on climate, and global carbon footprints of national trade policies
Interlinked areas for trade–climate diplomacy
<ul style="list-style-type: none"> • Trade-related transport emissions • Green aid for trade initiatives to support resilience, climate change mitigation and adaptation • Green trade finance to support low-carbon, nature positive exports • Supply chain policies, including on carbon footprint, timber products and deforestation-free commodities

Note: The table is a non-comprehensive sample of options noted in policy discussions and in the literature. Some options, such as proposals for ‘carbon clubs’ and a ‘climate waiver’, cut across a number of these topics. Annex 1 provides a synopsis of some topics and options noted in this table that are not addressed in the main text of this paper.

Trade policy in climate diplomacy

While trade has not been a central topic in the UNFCCC process over past decades or in the Paris Agreement specifically, trade issues have arisen in several aspects of the negotiations. Governments have also recognized that trade policy is relevant to the implementation of the Paris Agreement – in fact, some 45 per cent of NDCs submitted in the lead-up to COP21 in 2015 included a direct reference to trade or trade elements.⁷² The trade topics mentioned varied widely among countries, but included reducing trade barriers, regulating trade on climate grounds, regulating timber trade, standards and labelling, fossil fuel subsidy reform, international market mechanisms, technology transfer and response measures.

This section reviews trade issues that have arisen in regard to Article 6 of the Paris Agreement and carbon trading; carbon offsets, sinks and deforestation; and ‘response measures’ under the Paris Agreement.

Article 6 and carbon trading

Outstanding disagreements on Article 6 of the Paris Agreement are among the major points to resolve at COP26.⁷³ Article 6 is intended to help countries to raise their ambitions and achieve reduction targets through voluntary approaches to international cooperation,⁷⁴ and covers the use of ‘internationally transferred mitigation outcomes’ (ITMOs).⁷⁵ Article 6 has its origins in the emissions trading and offset mechanism under the Kyoto Protocol (which enabled countries that had not used all their permitted carbon emissions to sell this excess to other countries).

Article 6 has a trade dimension because it covers the transfer of mitigation outcomes for use toward the NDC of a country other than where the mitigation took place and because it creates a framework for carbon markets. This includes carbon markets that link emission trading systems (e.g., where two or more countries transfer emission reduction credits) or international trade in credits arising from emissions reductions achieved through specific carbon offset projects.⁷⁶ At the national and regional levels, a number of countries have adopted ETS in order to incentivize sectors to reduce emissions. In the absence of a global price for carbon, a key rationale for international cooperation on carbon markets in the context of Article 6 is to address concerns around competitive distortions between trading partners with different carbon pricing systems and overall emission levels, and also to support better functioning carbon markets.⁷⁷

As drafted, Article 6 leaves countries free to determine the manner of international cooperation, but it emphasizes that such efforts must result in overall global emissions reductions.⁷⁸ To avoid double counting, Article 6 requires robust accounting in accordance with guidance adopted by the Conference of the Parties in Article 6.2,⁷⁹ and pledges the establishment of a supervisory body. Ongoing Article 6 negotiations on these topics have been thorny, leaving key details unconcluded.⁸⁰ Meanwhile, the absence of clear rules has left doubt about the way in which countries may account for carbon market linkages and the use of international offsets.

There has also been extensive debate about whether government actions to implement Article 6 could trigger trade disputes at the WTO. Key unresolved issues include whether internationally traded emissions ought to be characterized as goods or services under trade rules, and the WTO compatibility of approaches that discriminate between carbon credits issued by different countries (such discrimination has taken place in the context of the EU ETS, for instance).⁸¹ A number of proposals

have been advanced to clarify and address potential issues, including proposals for the development under the UNFCCC or at the WTO of a specific protocol that defines rules on ITMOs, consistent with WTO principles and norms.⁸²

Although international carbon offsets can help to buy time for industries that face a difficult transition, some climate advocates argue that carbon offsets should not be counted in countries' climate change mitigation targets or progress reports; they argue that the primary focus must be on pushing for faster, concrete action from all actors to decarbonize and reduce emissions.⁸³ Switzerland, Norway and Canada are among the countries that have indicated that they will use offsets,⁸⁴ while major players such as the US, China, and the EU as well as Finland and the UK have said that they will not.⁸⁵ In 2020, Peru and Switzerland announced the first carbon offset deal under the Paris Agreement.⁸⁶ Through this deal, Switzerland will provide finance for sustainable development projects in Peru in exchange for credits, with which it intends to meet up to 25 per cent of its emissions reduction commitments.⁸⁷

Carbon offsets, carbon sinks and deforestation

There is ongoing discussion in climate diplomacy of the use of carbon-trading to support the functioning of forests as carbon sinks. The UNFCCC's mechanism for 'reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries' (known as REDD+) is covered under Article 5 of the Paris Agreement and has spurred several government-backed carbon offset projects.⁸⁸ The REDD+ process has also contributed to the emergence of a diversity of voluntary carbon offset initiatives led by companies, investors and NGOs focused on nature-based solutions aimed at slowing down deforestation and forest degradation, and promoting reforestation, afforestation and forest regeneration. As more governments, companies and individuals purchase such carbon offsets, there are growing calls for increased scrutiny of the measurement, monitoring and verification of their climate benefits (see Box 1). Alongside this, the volume of offset credits traded on the international voluntary carbon market is growing.⁸⁹

In parallel, UNFCCC discussions have long had an agricultural work stream,⁹⁰ where trade policy considerations are highly relevant.⁹¹ In the lead up to COP26, the UK and Indonesia co-chaired a dialogue on Forest, Agriculture and Commodity Trade (FACT). At COP26, twenty-eight partners – including Brazil, the EU, Indonesia, the Republic of Congo, the UK and the US – published a joint FACT roadmap for action on trade in forest and agricultural commodities, and 100 countries – including major producer and consumer countries such as Brazil, China, the EU and the US – issued the Glasgow Leaders' Declaration on Forest and Land Use, in which they committed to "working collectively to halt and reverse forest loss and land degradation by 2030 while delivering sustainable development and promoting an inclusive rural transformation."⁹² The political declaration also included an explicit pledge to new financing to protect forest ecosystem a promise to promote trade and development policies that do not drive deforestation and land degradation.

Response measures and the Paris Agreement

Another long-standing debate with an important trade dimension concerns the adverse economic and social impacts on countries of response measures undertaken by other countries to mitigate climate change.⁹³ At COP17 in Durban in 2011, a forum was established to discuss unintended economic impacts (including changes in trade, production or investment trends, growth or reduction in different sectors,

changes in international competitiveness and carbon leakage) and social impacts (including job losses in some sectors, human capacity-building needs, and exclusion of stakeholders from decision-making processes) of climate responses measures.⁹⁴

Picking up on this theme, the Paris Agreement acknowledges the issue of cross-border impacts of climate response measures. Its Article 4.15 calls on governments to consider ‘the concerns of Parties with economies most affected by the impacts of response measures, particularly developing country Parties’. The focus of discussions on response measures has evolved over time. Whereas initially a core focus was on call from Saudi Arabia and other OPEC countries for compensation for the decline in oil sales due to decarbonization, the focus of discussion of responses measures has broadened and is widely supported by the G77 political grouping (which includes the majority of developing countries).⁹⁵ Further, the impact of response measures is now recognised as an issue that affects all countries. Since COP25 in Paris, both developed and developing countries have also spoken of the need for a ‘just transition of the workforce’ in the context of national and international climate response measures. Developing countries have emphasized the need to address the challenges that response measures can present for their economic diversification.⁹⁶ Looking toward COP26 and beyond, international trade issues are increasingly likely to arise in discussion of response measures, especially as the EU moves forward with its CBAM proposal and a range of countries are actively considering how to use trade measures to support implementation of their climate policies.⁹⁷

Trade issues also arise in the UNFCCC’s Subsidiary Body for Scientific and Technical Advice (SBSTA), which is one of the two permanent subsidiary bodies to the convention. In 2015, SBSTA formally recognized the need to coordinate on trade policy.⁹⁸ SBSTA’s subsequent work on trade-related issues has included activities on the development and international transfer of environmentally sound technologies.⁹⁹ Formal SBSTA deliberations have also been complemented by a number of trade-related side events on topics such as climate-resilient transport infrastructure.¹⁰⁰ The UNFCCC process has also created a Technology Mechanism to promote transfer of climate-friendly technologies;¹⁰¹ the issue of green technology transfer has linkages to long-standing discussions on enabling policy frameworks for technology transfer to developing countries at the WTO, where governments have explored options for trade, investment and intellectual property policies to promote technology transfer, especially to LDCs, although with limited success.

Climate policy in trade diplomacy

Although governments have been slow to focus on climate change in the trade diplomacy arena, they are now attracting growing interest. Analysis over the past decades has yielded a broad range of proposals for addressing climate-trade intersections (see Table 2).

While proposals for border carbon adjustments (BCAs) are currently dominating commentary on climate-trade issues, a number of other climate-trade policy intersections also warrant attention. For many trade policy-makers and negotiators, the clearest pathway for them to contribute to climate action is to promote trade in essential climate technologies and climate-friendly goods and services, including through liberalization efforts at the bilateral, regional and multilateral level, as well as unilateral liberalization. In addition, recognition that trade policies have a role to play in supporting climate action and that climate policies and climate-related

trade measures have implications for trade and the competitiveness of trading partners is spurring calls for greater dialogue, consultation, transparency and action on climate-trade intersections in the multilateral trade arena and in the context of regional, plurilateral and bilateral trade relationships.

Climate in the multilateral trade arena

A broad range of climate-trade topics arise in the course of the multilateral trade discussions and negotiations. At the WTO, topics raised by different groups of members and stakeholders for discussion and action include: fossil fuel subsidy reform, negotiations on environmental goods and services, trade policy frameworks for a low-carbon circular economy, climate standards, green technology transfer and green industrial policy, sustainable agriculture and deforestation-free supply chains, and greening the WTO Aid for Trade initiative.¹⁰² A number of the developing countries most vulnerable to the economic and trade impacts of climate change are increasingly vocal in calling for stepped-up climate change mitigation efforts by trading partners and greater trade-related support for their own transition to more climate-friendly and climate-resilient production, exports and infrastructure. The Bridgetown Covenant approved by governments at the 15th UN Conference on Trade and Development held in October 2021 underscored the relevance of trade and trade policies to both climate mitigation and adaptation efforts in developing countries, while underlining the need to support the competitiveness of developing countries in a greener economy.¹⁰³

Until recently, members have explicitly questioned only a few of the growing number of climate-related trade measures notified to the WTO.¹⁰⁴ The fact that climate policy issues have arisen in some WTO disputes has, however, prompted calls from diverse experts to clarify the legal scope for climate action consistent with WTO rules and to reassure governments about the scope for taking climate action without falling foul of WTO rules. Meanwhile, climate-related issues arise in the regular work of a number of WTO committees, including the Committee on Technical Barriers to Trade, the Agriculture Committee, the Council on Goods, the Committee on Trade and Environment (CTE), and the Market Access Committee.¹⁰⁵ In 2021, for instance, a number of WTO members presented concerns and questions about the EU's CBAM proposal in several WTO Committees.¹⁰⁶

Despite growing calls for dialogue and cooperation on climate and trade intersections in the WTO context, the refusal of some WTO members is curtailing the prospect of including climate issues formally on the agenda of any of the WTO's regular multilateral committees. A handful of countries, such as Saudi Arabia, Russia and Turkey, reject efforts to discuss climate issues at the WTO.

While South Africa and India insist that progress on critical outstanding issues at the heart of the Doha Development Agenda should be addressed before taking on additional concerns, they also oppose efforts to advance discussions through plurilateral initiatives. Meanwhile, a growing number of developing countries – especially the poorest and most vulnerable to climate change – have highlighted the importance of addressing the trade-related impacts of climate change and trade policy solutions.

Meanwhile, recognition of the need for more focused attention to climate-trade intersections at the WTO was a primary factor motivating the decision by 53 WTO members to launch Trade and Environmental Sustainability Structured Discussions (TESSD) at the WTO in late 2020.¹⁰⁷ Subsequently, TESSD meetings, which are open to all

members, have attracted broad participation by WTO members (including both China and the US, though neither are (yet) co-cosponsors). The cosponsors are currently working toward a ministerial statement on trade and environmental sustainability at the 12th WTO Ministerial Conference, which is anticipated to include a commitment to more focused discussions on climate and trade intersections at the WTO.¹⁰⁸

Climate in bilateral, regional and plurilateral trade agreements

At the bilateral and regional levels, increasing numbers of trade agreements include explicit references to climate cooperation, in areas such as environmental goods and services, mutual recognition of energy efficiency requirements or the need to foster regulatory cooperation in climate-related areas.¹⁰⁹ A number of EU trade agreements contain dedicated chapters on clean energy or call explicitly for implementation of the Paris Agreement.¹¹⁰ While proposals abound on how trade agreements could more proactively support climate action, such provisions remain embryonic in most agreements and have only found their way into the most recent deals.

Enforceable climate-related provisions in trade agreements are rare, including in specific chapters on environmental cooperation (where they exist).¹¹¹

At the plurilateral level, the ongoing negotiations for ACCTS between Costa Rica, Fiji, New Zealand, Iceland, Norway and Switzerland are a 'first of their kind' effort to identify pathways on three aspects of the climate and trade agenda: eliminating barriers to trade in environmental goods and services; promoting and implementing climate standards and labels; and phasing out fossil fuel subsidies.¹¹² Although the countries involved are not significant in terms of their shares of global trade, the ACCTS negotiations are widely viewed as a valuable attempt to identify what might be possible legally and politically, especially as they involve both developed and developing countries.

The political economy of the climate and trade policy interface

The COVID-19 context: Implications for action on the climate-trade policy interface

The COVID-19 pandemic is shaping the political and economic context for climate and trade policy. As countries struggle to respond to the pandemic, implementation of climate action plans has slowed in many places. Despite calls to 'build back better', COVID-19 stimulus and recovery packages have not been as green as many advocates had hoped.¹¹³ Rather than setting economies on a more climate-resilient path, many governments are continuing support to fossil fuel-intensive industries and infrastructure projects. Although fossil fuel demand and the growth of global CO₂ emissions fell overall in 2020 as the pandemic slowed global economic activity,¹¹⁴ the total atmospheric burden of CO₂ in 2020 was higher than at any time in the last 3.6 million years.¹¹⁵ Further, global energy-related emissions in 2021 are forecast to reverse the decline, as recovery from the pandemic creates the second-largest emissions increase in history.¹¹⁶

The pandemic has left many governments struggling to sustain the political attention and resources needed to address climate challenges. Countries at the front line of climate impacts talk of a double crisis of climate and COVID-19, with the unfolding climate crisis having even more severe and enduring impacts than the pandemic.

On the trade front, COVID-19 has provoked a sharp fall in world trade and in commodity prices.¹¹⁷ Along with dramatic declines in foreign direct investment,¹¹⁸ many developing countries have faced a collapse in their export markets and unprecedented challenges in their tourism sectors,¹¹⁹ reducing their ability to service debt and pay for food and energy imports.¹²⁰

COVID-19 has also battered trade diplomacy. The erosion of trust arising from vaccine nationalism, restrictions of trade in medical and food supplies¹²¹ and limited action to support trade recovery in the poorest and most vulnerable countries presents an important obstacle to international cooperation on trade and, by extension, on trade and climate. In 2021, few governments are actively promoting a free trade agenda, and even those calling for open trade qualify this with other commitments, such as to ‘strategic autonomy’. Pressures to defend societies against the risks of shortages of essential supplies have spurred proposals from a range of stakeholders to reduce dependence on global markets, reshore national industries and shorten supply chains.

On the environmental front, although a number of governments talk of a green trade recovery from COVID-19, little of substance has emerged in terms of concrete intergovernmental commitments or actions to rebuild trade in ways that support a low-carbon and circular economy.¹²² A slim silver lining is that the pandemic has focused attention on the economic costs of supply chain shocks and the need for more resilient supply chains, including in regard to environmental risks and climate impacts.

Shifts in climate-trade approaches of key governments

As the world’s largest economic players announce policies to achieve the Paris Agreement’s climate goals, there is growing focus on the potential for climate-related trade conflicts on the one hand and about trade rules impeding vital climate action on the other.

Given the diverse range of topics and policy options in the trade and climate space, it is not surprising that government priorities on the climate-trade agenda vary and are evolving. Among developed countries, for instance, a number of countries have been active in calling for concerted discussions on the alignment of trade and trade policy with climate goals, especially on topics such as the liberalisation of environmental goods and services; but few have joined efforts to enhance transparency of fossil fuel subsidies at the WTO. Some emerging economies oppose the use of trade agreements to compel action on climate issues such as deforestation; but others are keen to harness such agreements to support climate-friendly exports or bolster access to renewable energy technologies vital to their decarbonization efforts.¹²³

Looking ahead, all eyes are on what the EU, US, and China will do, both in terms of domestic action to implement climate commitments, and on international diplomacy on climate-trade intersections. At the same time, developing countries are calling for stronger focus on their climate-trade priorities and challenges, and the impacts of climate-related trade measure on their competitiveness.

The EU's climate-trade agenda

As it works to implement its European Green Deal, the EU has vowed to put climate action at the heart of its trade agenda. In the EU's bilateral trade deals, numerous provisions on climate cooperation appear in sustainable development chapters or in dedicated chapters dealing with renewable energy. The EU has also stated that it will only pursue trade arrangements with countries that ratify and effectively implement their commitments under the Paris Agreement. In its 2019 communication about the European Green Deal, the European Commission specified that:

It will propose to make the respect of the Paris Agreement an essential element for all future comprehensive trade agreements. The EU's trade policy facilitates trade and investment in green goods and services and promotes climate-friendly public procurement. Trade policy also needs to ensure undistorted, fair trade and investment in raw materials that the EU economy needs for the green transition. It can help address harmful practices such as illegal logging, enhance regulatory cooperation, promote EU standards and remove non-tariff barriers in the renewable energy sector.¹²⁴

In 2021, the EU's proposed CBAM is forcing attention to climate-trade policy intersections that governments around the world have long sidestepped.¹²⁵ Within the EU, the Commission faces calls from several EU members, environmental constituencies and experts to use its trade power more assertively to leverage environmental action in trading partners, including through stronger enforcement of sustainability provisions in EU trade agreements.¹²⁶ Some EU members have voted – or have threatened to vote – against ratification of the EU–Mercosur trade agreement until they are satisfied that Brazil demonstrates appropriate action to implement its Paris Agreement commitments.¹²⁷ The Netherlands and France have argued that trading partners must live up to Paris Agreement commitments to implement progressively more ambitious climate policies or risk the withdrawal of trade benefits.¹²⁸ Some European countries are, however, very reluctant to link climate and trade agendas so explicitly, or are cautious in this regard, with Germany being a prime example. Alongside, a number of European think tanks call for the EU's climate ambitions to be pursued in ways that address challenges facing developing countries, support their efforts to improve environmental performance,¹²⁹ and avoid detrimental consequences for LDCs.¹³⁰

Meanwhile, at the WTO, the EU has signalled its interest in advancing discussions on climate, including through liberalization of environmental goods and services, transparency of trade-related climate measures, transparency and reform of fossil fuel subsidies, the greening of the WTO Aid for Trade initiative and the strengthening of the WTO's institutional framework for dealing with trade and environment issues.¹³¹

Return of the US to multilateralism, but questions abound

The US is back as a player in global climate diplomacy. As well as rejoining the Paris Agreement, the Biden administration has announced that it will enshrine climate as an 'essential element' of US foreign policy and national security, and adopt a 'whole-of-government' approach to reducing emissions. Biden has pledged to massively boost federal investments in clean energy and to seek to eliminate fossil fuel subsidies, and he announced a new US target for greenhouse gas emissions reductions at a US-hosted International Climate Summit in April.¹³² Although it remains unclear how much the Biden administration will be able to secure the necessary support for its ambitions in congress, these pledges have generally

been well received as steps in the right direction. The Biden administration has also signalled its intention to restore the US commitment to multilateralism on trade and declared that it deems climate issues as central to its trade strategy and diplomacy.

On the climate-trade front, the US faces domestic pressures to use its trade policy as a vehicle to address climate change¹³³ and also to ensure that its trade arrangements safeguard US climate action policies, protect American jobs and do not penalize local businesses that are taking climate action. Biden's new US trade strategy, announced in early 2021, advances a clear 'Buy American' agenda, committing to reshore certain supply chains to strengthen domestic resilience and employment, and aggressively promote US export interests. It also states that the US will 'work with allies and partners committed to fighting climate change', while acting 'against trading partners that fail to meet their environmental obligations under existing trade agreements'.¹³⁴ The strategy outlines a focus on: strengthening environmental standards; exploring and developing market and regulatory approaches to addressing greenhouse gas emissions in the global trading system (including consideration of border carbon adjustments); fostering US investment and production of climate technologies; and promoting renewable energy supply chains.¹³⁵

In April 2021, US Trade Representative Katherine Tai argued that existing rules of globalization incentivize downward pressure on environmental protection and are not equipped to deliver a global solution to the climate challenges facing the world. Pledging to ensure that 'we and our trading partners are engaged in fair competition that does not suppress environmental protection', she stated that the US would pursue full implementation and enforcement of environmental obligations in its trade agreements, and work to build international consensus around new rules.¹³⁶

A core question is how the US will address the intersection of climate-trade issues in its relations with China. US President Joe Biden has stated that the two countries can and should work together on climate action despite differences on economic and political issues. With China stating that bilateral climate cooperation 'cannot be separated from the wider environment of China–US relations', some US analysts argue that competitive 'pressure, not partnership' will do more to spur action on climate change.¹³⁷ In September, a discussion between the US and Chinese presidents yielded a commitment to continued engagement and dialogue to advance coordination and cooperation on issues of climate change and economic recovery, among other issues; but the outlook remains uncertain.¹³⁸ Meanwhile, the US and EU are exploring pathways for transatlantic cooperation on climate and trade intersections, especially in light of the EU's CBAM proposal, though as yet with no concrete proposals on the table.¹³⁹

On the multilateral front, the US has participated in meetings of the WTO Structured Discussions on Trade and Environmental Sustainability. Although it has not yet joined as a co-sponsor, the fact that the US has contributed to discussions and tabled proposals is viewed as a positive indication that it intends to engage with this process at the WTO.

Uncertainty over China's climate-trade agenda, despite commitments

China has affirmed that it intends to be a key actor on the climate stage. Its net zero commitment, the 2021 China–US statement on climate change¹⁴⁰ and engagement in the China–EU High-Level Environment and Climate Dialogue demonstrate this intention. Questions abound, however, about how much China is willing to do at the

interface of climate and trade. China is likely to have a strong interest in exporting environmental goods and gaining access to environmental technologies.

Given existing China–US trade tensions, the US and EU may well resist any pressures to provide greater market access to Chinese exports of climate-friendly technologies and it will raise concerns about subsidies to state-owned companies that produce them. Ongoing EU–China trade and investment talks are also a reminder that difficult issues – such as the transparency of subsidies, forced technology transfer and rules on state-owned enterprises – will set the context for trade and climate discussions.¹⁴¹ After seven years of talks, the EU–China Comprehensive Agreement on Investment (CAI) includes provisions on each of these thorny topics, along with commitments on sustainable development, the environment and climate, including effective implementation of the Paris Agreement.¹⁴² China committed, for instance, not to lower standards of environmental protection in order to attract investment or to use environmental standards for protectionist purposes. In the agreement, the EU and China agree to facilitating and encouraging investment in environment – or climate-friendly goods and services generally (though not to prioritizing more sustainable investments).¹⁴³

On climate and trade, China’s approach is likely to be informed by and entangled in broader concerns about its status and role in the global trading system.¹⁴⁴ Like other major powers, China will continue to approach international climate cooperation within the wider framework of international economic competition and political security, and can be expected to work to avoid the EU and US joining forces against it. At the multilateral level, China has publicly stated that it is committed to working with other governments to advance sustainable development and environmental sustainability at the WTO. It participates in, but has not (yet) formally co-sponsored, the Structured Discussions on Trade and Environmental Sustainability at the WTO.

Developing countries engaged but concerned about protectionism and equity

A growing number of developing countries are assessing how to respond to climate-trade intersections and to integrate climate change considerations into their trade policies.¹⁴⁵ One clear sign of this is that “climate and environmental crises” were identified as one of three core global challenges at the 15th UNCTAD conference in 2021.¹⁴⁶

In discussions of climate and trade issues, climate equity is high in the minds of many developing-country officials. Noting the historic responsibility of developed countries for the climate crisis, and their higher per-capita emissions, developing countries emphasize that the economic costs of climate action must be shared fairly and that discussions of trade-climate intersections and solutions must be informed by multilaterally agreed principles of the Paris Agreement, including in regard to ‘common but differentiated responsibilities and respective capacities’ (CBDR-RC) for climate action.

As the world shifts toward low-carbon economies, developing countries underline that the concept of a ‘just transition’ is hollow without adequate financial support for their communities and sectors that face job losses and economic decline, and for investment for climate-friendly economic diversification.¹⁴⁷ In the face of climate impacts on trade, as well as opportunities and challenges related to promoting more climate-friendly trade, the circumstances and interests of developing countries vary widely.¹⁴⁸ Trade will be essential to scale up the diffusion and uptake of renewable

energy and climate-smart goods, services and technologies critical to climate mitigation and adaptation. Trade will also have a critical role in enabling countries to access critical goods, such as food supplies, that they can no longer produce due to climate-induced changes in production patterns.

A number of developing countries, especially those that are most vulnerable to climate impacts such as small island developing states, describe themselves as strategic allies in efforts to address climate-trade intersections proactively and fairly. At the same time, many developing countries are concerned that climate policies may be vehicles for protectionism, whether deliberately or inadvertently. They underline the significant costs of aligning domestic production methods to comply with climate-related regulations and voluntary standards in major export markets; urge greater attention to the trade effects of climate policies on developing countries;¹⁴⁹ and call for trade policy frameworks that provide appropriate incentives and support for local industries to leapfrog carbon-intensive paths.¹⁵⁰ Developing countries that lack resources to provide green subsidies or use government procurement to support economic diversification are especially concerned about how climate policies introduced by more powerful trading nations will impact international competitiveness. Many developing countries call for greater trade finance, investment and aid for trade to address climate impacts on their trade and trade infrastructure, and to support trade-related climate adaptation and mitigation.

Stakeholder perspectives

Private sector and civil society stakeholders are showing more and more interest in trade and climate intersections.

The private sector

In the business sector, the financial community's grasp of the economic and commercial risks of climate change has already led to impressive efforts to integrate climate considerations into global investment strategies, risk assessment and insurance strategies.¹⁵¹

The COVID-19 pandemic is also driving business interest in supply chains that are more resilient, including in the face of climate shocks, as a way to sustain their competitiveness. Aside from the world's largest corporate names, a growing number of micro, small and medium-sized businesses recognize, albeit often with trepidation, that consumer demand for greener products and services means that maintaining high environmental standards is increasingly important in the global market.¹⁵² For all these reasons, a growing number of businesses are joining the call for: stronger alignment of climate and trade policy, transparent and predictable trade policy frameworks that help them to move ahead on environmental sustainability and discussion on how trade and trade policy can play a more supportive role in climate action. Business groups also highlight that climate action will require trade policy frameworks that support a more circular economy (for example, where the carbon footprint of raw materials extraction and production could be reduced through trade policies that support efforts to cut waste and facilitate trade in recycled materials and goods for reuse, remanufacture and recycling).¹⁵³

Several private sector associations and partnerships are setting out proposals on climate and trade. The International Chamber of Commerce (ICC) is an active advocate of aligning the trade and climate agendas, building on the ICC Chambers Climate Coalition's commitment to achieving net zero CO₂ emissions by 2050.¹⁵⁴

The World Economic Forum is also supporting work on green trade, including a call for zero tariffs on priority climate-friendly goods.¹⁵⁵

Civil society

At present, there is limited coordination among civil society organisations working on green trade and the wider climate action community. Over the past decade, the environment–trade landscape has become increasingly fragmented as environmental advocates have specialized on specific issues – such as fisheries subsidies, deforestation-free supply chains and wildlife trade.¹⁵⁶ Across think tanks, unions, NGOs, civil society groups and social movements around the world, views vary widely on priorities and strategies for addressing climate-trade intersections.



Around the world, views vary widely on priorities and strategies for addressing climate-trade intersections

One important aspect of climate politics is that most environmental constituencies appreciate the need for action at home and abroad to achieve global climate goals. On the trade front, this means that in addition to aligning the national economy with climate goals, there is a need to address the global carbon footprint of domestic consumption and spur decarbonization abroad as well. While domestic political alliances often mix environmental groups and producers (sometimes fueling concerns about protectionist intentions), a core challenge that many civil society groups are grappling with is how to ensure that international climate policies – including on trade – provide all producers with incentives, domestic and foreign, to decarbonize and produce sustainability. Amidst advocacy to restrict imports of unsustainably produced goods, there is growing recognition that international cooperation is required to ensure that such products are not simply diverted to other less-regulated markets.

In the past year, there has been an upturn in focused policy dialogue, information-sharing and strategy development on climate and trade. In both developed and developing countries, a number of civil society organizations, unions and think tanks are building their internal capacity and networks on environment, climate and trade. Several philanthropic donors also recognise the need to build capacity on climate-trade intersections among developing country stakeholders and to support processes that can build networks and trust between governments and with stakeholders on these topics.

Six politically feasible areas for climate-trade cooperation

Stepping back from the many complex issues and interactions, this chapter identifies six policy options that are politically feasible for immediate cooperation. The focus on the following six options is not intended to suggest that parallel work on other policy options is not important; progress on many fronts is vital. Here, however, the emphasis is on options that could be advanced in the final months of 2021, could make a meaningful immediate contribution towards meeting climate goals and could lay the foundation for future work on climate-trade cooperation.

1. Trade in environmental goods and services that support climate action

The promotion of trade in goods and services that provide climate benefits is an obvious way that governments could align trade with climate goals. From a climate action perspective, there is a clear need to diffuse climate-friendly technologies as swiftly as possible; many developing countries seek access to such technologies to enable them to leapfrog carbon-intensive development pathways. At the national, regional and multilateral levels, a number of governments, businesses and NGOs are calling for trade policies that would promote the rapid, global diffusion of climate-friendly goods and services, such as renewable energy technologies and energy efficiency technologies.¹⁵⁷ In 2021, the WTO Ministerial Conference provides a clear opportunity for a diverse group of WTO members to announce their joint intention to advance talks on this topic, setting out broad goals and the proposed scope of negotiations. At the WTO, a number of Members have expressed interest in renewing discussion to promote and facilitate trade in environmental goods and services, starting with the inclusion of this topic in a Ministerial Statement at the 12th WTO Ministerial Conference that could lay the foundation for future work.¹⁵⁸ Separately, in October 2021, the European Trade Commissioner committed to “building a coalition of trade ministers across the globe who want to take action to promote trade in green goods and services.”¹⁵⁹

To advance cooperation, a clear framing in terms of the environmental purpose of future talks will help governments to avoid repeating previous unproductive debates on criteria and lists of products for negotiations.¹⁶⁰ At the WTO, the 2001 Doha Development Agenda included a mandate for negotiations on both environmental goods and services. When multilateral talks failed to advance, some 46 members engaged in plurilateral negotiations for an Environmental Goods Agreement (EGA), which also stalled in 2016.¹⁶¹ While the partial EGA results as of 2016 included a list of goods vital for the clean energy transition, a fresh start would enable governments to adopt an approach that accounts for evolving climate technologies, considers a wider range of goods vital for climate adaptation and mitigation and focuses on key supply chains critical to climate action.

The issue of criteria for what counts as an ‘environmental’ or ‘climate-friendly’ good spurs considerable debate in trade talks. Some governments argue that ‘clean coal’, nuclear and carbon capture technologies should be included in future negotiations, while others argue for products like bio-fuels.¹⁶² Developing countries have long expressed frustration that ‘green’ agricultural goods – ranging from organic products through to sustainably harvested timber – have not been accepted by other trading partners as candidates for zero-tariff negotiations.¹⁶³ The growing promise of hydrogen-based fuels to help reduce industrial emissions and support a shift towards cost-effective and greener transport means that ‘green’ hydrogen exports are also likely to feature in discussions of environmental goods.¹⁶⁴ Cross-border trade in electricity has been a further focus of debate, with enduring disagreements as to whether electric power – and indeed ‘clean’ or green electric power – should be considered as a good or a service. (To address this topic, experts have advanced several proposals for work at the WTO on trade, sustainable electricity and the clean energy transition.)¹⁶⁵ A clear focus on specific climate challenges that could be addressed through the promotion of trade in environmental goods and services – and the specific sectors and supply chains relevant to these – would be one way to anchor future discussions.

A related area for cooperation is on non-tariff barriers that can limit climate-friendly trade flows. Issues related to licensing, technology conformity assessments, local content requirements, technical regulations and voluntary standards can all affect the way businesses implement sustainability plans across supply chains,¹⁶⁶ increase the costs of adopting technologies vital for decarbonization, complicate supply chains for essential climate technologies, and thwart access to markets for green exports.¹⁶⁷

A third area for cooperation is on the links between efforts to promote trade in environmental goods and efforts to boost trade in environmental services. Services are often essential to the functioning of clean energy technologies and many climate technologies have services embedded in them.¹⁶⁸ As such, the positive impact of trade in climate-friendly goods could be constrained without a complementary focus on facilitating trade in, for instance, relevant digital services (such as remote maintenance or operations management) and professional services (such as movement of professional workers to provide on-site maintenance or operations). Creating an enabling policy framework for trade in environmental services (such as through changes to national regulation to enable foreign companies to establish themselves or provide services in the domestic market) is thus a priority for a range of countries with businesses that produce green technologies and related expertise. In the APEC region, countries are exploring opportunities in trade in environmental services and approaches to further discussion of this topic.¹⁶⁹ At the WTO, members such as Canada, Australia, Japan, Costa Rica and the UK have emphasized their interest in talks on trade in environmental services, including climate-related services, both through the work of the WTO’s Council on Trade in Services and its Special Session as well as through plurilateral negotiations that would tackle environmental goods and services simultaneously.¹⁷⁰

Liberalization of trade in services has, however, proved challenging for WTO Members. Environmental issues aside, services negotiations at the WTO have been slow because many countries struggle to determine their priorities in this complex area. A core concern for many countries, especially developing countries, is that while liberalization could boost the provision and efficiency of services in their economies, opening up domestic services sectors could negatively impact local companies and employment faced with competition from large international companies, and may compromise their ability to deliver on other local public policy goals.¹⁷¹

Further, while many developing countries seek access to such technologies to enable them to leapfrog carbon intensive development pathways and adapt to climate change, they also caution that liberalization of certain environmental goods and services could undermine their efforts to foster national climate industries that would generate valuable economic returns and jobs. Many developing countries and businesses are seeking trade policy frameworks that would enable them to import and adapt green technologies from elsewhere and to build and diversify their own climate-related industries sectors and green technological capacities. Developing country governments frequently highlight the need for more attention to how technology transfer policies, as well as rules and practices related to intellectual property, could be harnessed to improve dissemination and affordable access to technologies and incentivize local innovation (see Annex 1 for a discussion of trade and green industrial policy). In the UNFCCC context, for instance, developing countries have long argued for enhanced commitments to the transfer of climate-related technologies, including through reform of trade-related intellectual property arrangements to facilitate affordable access. Here, dialogue between climate and trade negotiators and officials would be especially relevant as the UNFCCC has a dedicated mechanism to promote climate technologies and their transfer.¹⁷²

Wider geo-economic dynamics are also relevant to the prospects of international cooperation on trade in climate-friendly goods and services, especially given China's role as a leading producer of many key climate technologies. Given existing China–US trade tensions, for instance, the US may resist greater market access for Chinese exports of climate-friendly technologies; raise concerns about Chinese subsidies to state-owned companies that produce them. Developed country complaints about the impact on their competitiveness of China's policies on technology and intellectual property are also relevant to climate-related technologies. Tensions with China are not only a concern for developed countries. India, for instance, is keen to avoid dependence on low-cost solar technologies and components from China and to build domestic production and export capacity.¹⁷³

A final consideration relevant to discussions of climate-related tariff negotiations is that a range of goods with high CO₂ emission-intensity currently enjoy low tariffs.¹⁷⁴ Many such carbon emission-intensity goods are used as inputs to production by manufacturers, which have become accustomed to low-cost inputs; as such, any efforts to create a more level playing field will be politically complex. To rectify the bias in favour of high carbon emission-intensity goods, higher tariffs for such products is one policy option on the table, along with stronger regulations for carbon-intensive goods, and border carbon adjustments (BCAs) (discussed in section 4 below). In the lead up to COP26, the UK government indicated in its Net Zero Strategy that decisions on tariff liberalisation in FTAs should take the environmental and climate impact of products into account. Rather than BCAs, the UK government argued that “the case for maintaining tariffs or pursuing conditional market access, through clauses on standards or eco/carbon intensity, should be carefully considered.”¹⁷⁵

Looking ahead, governments have several pathways for promoting trade in climate-friendly goods and services. They can choose to proceed unilaterally, bilaterally and regionally. Under its Global Tariff regime, for instance, the UK has unilaterally moved to zero tariffs on a range of environmental goods, including many that can help tackle climate change.¹⁷⁶ At the regional level, APEC countries agreed in 2011 to cut applied tariffs to 5 per cent or less by 2015 on a list of 54 environmental goods, including clean energy technologies and goods for air pollution control.¹⁷⁷ There is ongoing work in the APEC region to update its early path-breaking work

on environmental goods liberalization¹⁷⁸ and to advance talks on environmental services.¹⁷⁹ Discussion of trade in climate-related goods and services is also on the agenda of the ACCTS negotiations.

Governments can also work multilaterally. In 2021, a concrete step forward would be for like-minded governments to agree at the WTO Ministerial Conference to launch talks on the promotion of trade in environmental goods and services, with a commitment to advancing climate mitigation and adaptation as a core goal and a timetable for devising the priorities, scope and modalities for concrete cooperation.

One approach could be to focus negotiations on a broad set of environmentally friendly goods and services that could attract a wider range of countries. A second approach would be to target a small number of climate-friendly goods or supply chains that could offer especially high climate impact and around which consensus could most plausibly be reached among a key group of like-minded countries. (The World Economic Forum, for instance, has proposed a Climate Trade Zero initiative focusing on key climate-friendly products).¹⁸⁰ Vital to attracting the critically needed engagement of those developing countries that are especially high emitters and the fastest growing sources of greenhouse gas emissions is to consider both tariff and non-tariff factors that impact trade, and to devote attention to wider trade and investment policy frameworks needed to promote trade in climate-friendly goods and services in ways that serve the development and competitiveness of environmental industries and exports from developing countries.

2. Fossil fuel subsidy reform

In 2021, a proposed joint WTO Ministerial Statement on Fossil Fuel Subsidy Reform, cosponsored by a diverse group of WTO members that stresses the importance of fossil fuel subsidy reform, and creates a timeline for identifying concrete ways forward, would establish the vital cooperative basis for decisive future action.

In 2019, governments spent an estimated \$500 billion subsidizing fossil fuel production and consumption.¹⁸¹ Removing such subsidies could lead to huge reductions in greenhouse gas emissions. Fossil fuel subsidies represent a drain on public resources, encourage wasteful consumption, add to health hazards caused by air pollution, and slow the decarbonization that is vital to combating climate change. Subsidies reform could also free up resources that could instead be invested in the transition to renewables and energy efficiency.¹⁸² Around the world, however, government reform efforts face significant resistance from fossil fuel producers, as well as from the many businesses and communities benefiting from subsidized fossil fuel production and consumption.¹⁸³ Recognition of the need for a 'just transition' has spurred proposals to use resources generated from cutting fossil fuel subsidies to support workers impacted by their phase-out.¹⁸⁴ In the US, the Biden administration committed to fossil fuel subsidy reform in its Executive Order on Tackling the Climate Crisis at Home and Abroad, pledging to invest money saved in a clean energy fund and to address environmental justice concerns among those affected by the climate transition.¹⁸⁵

International calls for fossil fuel reform are not new. Since 2009, the G20 has recommitted at regular intervals to 'rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption'.¹⁸⁶ The UN Secretary General and the Finance Ministers' Coalition for Climate Action repeatedly argue for reductions in fossil fuel subsidies,¹⁸⁷ and a group of non-G20 governments

has created the Friends of Fossil Fuel Reform to build political consensus.¹⁸⁸ While some countries have phased out certain subsidies,¹⁸⁹ and there have been some informal peer reviews of reform efforts,¹⁹⁰ progress on reducing subsidies has been slow.¹⁹¹ Although climate campaigners have insisted that COVID-19 recovery packages should not shore up fossil fuel-dependent industries, governments continue to support heavily fossil fuel-dependent sectors, from coal producers to airlines, rather than phasing out the subsidies that sustain them.¹⁹²

Options for stronger international cooperation on fossil fuel subsidy reform include: formal binding agreements; informal, soft law commitments; and pledges reinforced through peer pressure review mechanisms. The ongoing plurilateral ACCTS negotiations are expected to yield a first concrete example of how fossil fuel subsidies could be addressed through international trade rules, including through rules to prohibit specific types of subsidies along with exceptions to address development priorities. In the APEC region, Trade Ministers have provided direction to trade officials to explore options for a potential standstill on new fossil fuel subsidies.¹⁹³ At the WTO, governments already have a set of international rules on subsidies (in the WTO Agreement on Subsidies and Countervailing Measures) that could be the basis for multilateral rules on fossil fuel subsidy reform.¹⁹⁴

While any country can decide unilaterally to reduce its fossil fuel subsidies, and to pursue reform through bilateral, plurilateral or regional cooperation, a multilateral approach would better address competitiveness concerns because it would apply to a much wider set of countries.¹⁹⁵ At the 2017 WTO Ministerial Conference, 12 countries led by New Zealand issued a Ministerial Declaration on Fossil Fuel Subsidy Reform,¹⁹⁶ arguing that governments should harness the multilateral trading system to support greater transparency in fossil fuel subsidies, share national experiences of reform and foster dialogue on how trade disciplines could support reform efforts. Recognising the limited prospects of the launch of any negotiations of WTO disciplines on fossil fuel subsidies this year, proponents are working to attract support for a ministerial statement at MC12 through which cosponsoring members would commit to improved information-sharing to advance discussion ‘aimed at achieving ambitious and effective disciplines on inefficient fossil fuel subsidies... including through enhanced WTO transparency and reporting’ and elaborating concrete options to advance this issue in advance of the WTO’s 13th Ministerial Conference.¹⁹⁷ The most significant recent development is that the EU has joined as a cosponsor of the ministerial statement, thereby bringing the fossil fuel reform initiative at the WTO its first G7 members.



Notably, the proposed ministerial statement explicitly recognizes that fossil fuel subsidy reform ‘needs to take fully into account the specific needs and conditions of developing countries’

In addition to calling for the rationalization and phase out of fossil fuel subsidies along a clear timeline, the statement would establish a process for the dialogue, transparency, learning, experience-sharing vital to spurring national reforms and enhanced international cooperation. In so doing, it could shed light on the kinds of reforms that are possible, approaches to subsidy reform that could support a clean energy transition, and ways to ensure that reform does not harm the

most vulnerable communities. Notably, the proposed ministerial statement explicitly recognizes that fossil fuel subsidy reform 'needs to take fully into account the specific needs and conditions of developing countries and minimize the possible adverse impacts on their development in a manner that protects the poor and the affected communities.'¹⁹⁸

Next steps in 2021 are for cosponsors to redouble efforts to expand the number and diversity of cosponsors of a WTO ministerial statement and to ensure the statement commits cosponsors to developing a timeline for action in the post-MC12 period. Meanwhile, governments can take action unilaterally to disclose their own fossil fuel subsidies and notify these to the WTO, and to end official trade finance for fossil fuel projects (discussed below). Beyond the trade arena, parallel efforts to push for stronger action on fossil fuel subsidy reform through the G20 and at COP26 will be needed. Alongside ongoing work to develop shared definitions of what constitutes a fossil fuel subsidy, continued investment in third-party independent efforts to shed light on fossil fuel subsidies, such as those of the Global Subsidies Initiative and the OECD, will also remain vital.

3. Green aid for trade to advance climate goals and green trade recovery

Green aid for trade initiatives will be an essential component of enhanced cooperation at the intersection of climate and trade. A key priority for developing countries is to ensure that the push for decarbonization does not leave them further marginalized in global trade and in the shift to a green global economy. Politically, enhanced trade-related assistance is vital to build support among developing countries for ambitious action on green trade, especially given the economic fallout of the COVID-19 pandemic.¹⁹⁹ Economically, aid for trade is essential to drive green economic transformation in developing countries, enhance their participation in green supply chains and promote a trade recovery that does not undermine climate goals.

For developing countries, top aid-for-trade priorities include support for economic diversification, supply-side capacity and meeting the growing array of standards needed to compete in global markets. Each of these priorities is equally relevant for climate action and green aid for trade. Green aid for trade can support efforts to: transition to low carbon and climate-resilient production and trade-related infrastructure (such as in the energy and transportation sectors); build national green industries that can serve local economies; meet emerging international climate standards; and compete in low-carbon global markets and supply chains.²⁰⁰ Green aid for trade can also help countries tackle the challenges of trade-related climate adaptation and boost climate readiness, including in terms of disaster preparedness, reducing vulnerability to extreme weather events and bolstering the climate resilience of trade-related production and infrastructure.²⁰¹

Critically, the efforts of many developing country businesses to scale up green production and exports are held back by a significant gap in trade finance and investment. Alongside aid for trade, climate mitigation and adaptation efforts in developing countries will require significantly increased climate-friendly public and private sector investment, trade finance (which helps exporter businesses to reduce risk and ensure that they receive payment for goods shipped overseas in the event of customer defaults) and affordable access to relevant technologies, especially those that will enable them to leapfrog carbon-intensive production.

Looking ahead, four approaches to bolstering green aid for trade would support climate action and complement efforts to promote greener trade:²⁰²

- mainstreaming climate considerations into existing aid for trade portfolios;
- providing additional aid for trade that focuses explicitly on climate-related priorities articulated by developing countries;
- promoting green investments through trade-related support that occurs outside the framework of the WTO’s Aid for Trade Initiative, such as in the context of the Belt and Road Initiative; and
- ensuring more coherence and synergies between the Aid for Trade Initiative and other international efforts to provide and boost climate and trade finance.

To strengthen coherence, a starting point would be strengthened coordination between the range of international efforts relevant to the intersection of climate action, economic transformation and trade, including: efforts to boost green aid for trade, trade finance and development finance (through the World Bank and regional development banks, as well as the UN and bilateral aid agencies); climate finance (such as through the Green Climate Fund, private sector investors and private philanthropies); environmental assistance (such as through the Global Environment Facility and UNEP); and debt relief (where there is growing discussion of ‘debt for climate’ swaps).²⁰³ Bilateral projects and financing available through carbon-offsetting schemes implemented under Article 6 of the Paris Agreement are also relevant in this respect, as are the growing number of private sector carbon offsetting initiatives.

In 2021, politically feasible next steps could be advanced on two fronts. First, governments could agree to convene a high-level, multi-stakeholder summit in 2022 on aid and finance for green trade. The summit would involve recipient countries and all the key international actors, donors and investors outlined above and would seek to promote coherence and define strategies for ramping up support to developing countries for green economic diversification, participation in green supply chains and trade-related climate adaptation and readiness. Secondly, WTO members could ensure a strong commitment to enhanced green aid for trade in the multilateral WTO ministerial declaration or ‘outcome document’ from MC12, as well as in a plurilateral WTO ministerial statement on trade and environmental sustainability, and commit to advancing work on this agenda in the lead up to the 2022 Global Aid for Trade Review. To inform both efforts, there is a critical need to invest in country-led strategies for integrating climate considerations into trade and development plans along with assessments of national priorities for climate-related trade assistance.

4. ‘Net zero’ trade finance by 2025

A fourth element of a climate and trade package in 2021 would be government commitments to ‘net zero’ trade finance by 2025, ending trade finance for fossil fuel projects and scaling-up trade finance that supports climate-friendly trade.

Trade finance refers to credit, guarantees and financing provided by governments, private companies, and international development banks to reduce risk to exporters. Environmental advocates have long called for governments and development banks to apply improved environmental criteria and risk assessments to trade finance. Amidst public outcry about the use of public resources in ways that exacerbate

the climate crisis or undermine climate action, several export credit agencies have pulled out of specific fossil fuel projects and some are considering policies to eliminate or reduce their financing for fossil fuels (see Table 3). In early 2021, seven European countries announced the creation of an Export Finance for Future (E3F) coalition, committing to: increase export finance support for sustainable projects, end official finance for thermal coal projects and related infrastructure and explore how best to phase out export finance for oil and gas.²⁰⁴

Table 3. Examples of climate commitments among export credit agencies

Country	Export credit agencies' climate commitments
Sweden	SEK, Sweden's export credit agency, has committed to ensuring total lending to coal, oil and gas projects does not exceed 5 per cent of its total lending portfolio and an end to support for fossil fuel exploration and extraction by 2022. ²⁰⁵
UK	In 2019, a UK Environmental Audit Committee report concluded that UK Export Finance (UKEF) support for fossil fuel energy projects in developing countries was 'unacceptably high' and called for the agency to align its work with achieving net zero emissions by 2050. In January 2020, the UK announced an end to support for coal mining and coal-fuelled power stations in developing countries, but gave no indication that UK funding for international oil and gas energy projects would end. In July 2020, following criticism of the approval of a fossil fuel project in Mozambique, the UK prime minister ordered a review of overseas oil and gas projects. ²⁰⁶
Denmark	While Denmark's export credit agency, Eksport Kredit Fonden (EKF), does not have any explicit commitment not to support fossil fuels, its reports reveal no current support for upstream or downstream coal, oil and gas. EKF reports indicate a strong focus on low-carbon technologies. The wind energy sector, for example, secured 70 per cent of the support that EKF provided in 2018. ²⁰⁷
Japan	The Japan Bank for International Cooperation (JBIC) has supported eight coal plants since 2015 and has not revealed any official plans to stop funding for existing projects. In 2020, JBIC stated that it 'will no longer accept loan applications for coal-fired power generation projects.' ²⁰⁸ (It is, however, reportedly considering supporting a coal project in Vietnam together with other banks.) ²⁰⁹
Canada	Canada's export credit agency committed to end support for upstream and downstream coal projects from January 2019. It also committed to measure and set targets to reduce the greenhouse gas emissions intensity of its portfolio from 2020. There is as yet, however, no limit or phase-out commitment for oil and gas. ²¹⁰

Driving forward a climate agenda for export credit agencies, which often have a semi-independent status within governments, will require cooperation among finance and trade ministries, along with ministries of environment. Already, a number of important efforts to stimulate greater international cooperation to align trade finance with climate goals are under way and provide a foundation for further action.

In October 2021, governments participating in the OECD Arrangement on Officially Supported Export Credits agreed to end officially supported export credits and tied aid for unabated coal-fired power plants.²¹¹ Further, at the Berne Union (which brings together both public and private export credit agencies, export-import banks and political risk insurers),²¹² some members are calling for a transition to net zero portfolios before 2050.²¹³ The official export credit agencies of Denmark and the Netherlands have stated their intention to have the 'greenest' export credit agencies, while a number of other export credit agencies, such as in Spain and Germany, have developed climate-related goals.²¹⁴

A concrete next step would be for a critical mass of like-minded governments to commit to achieving net zero official export credit portfolios by 2025, ending trade finance for all fossil fuel expansion in developing countries and agreeing on concrete targets and time frames for boosting green trade finance. Such joint pledges could underpin a wider Berne Union effort as well as amendments to the OECD export credit arrangements with specific climate-related criteria.²¹⁵ Governments could also agree to use their influence at the World Bank and regional development banks to end trade finance for fossil fuel projects and require stronger organization-wide policies in this respect.²¹⁶

5. Transparency, dialogue and coordination on climate and trade policies

Although there is growing talk among governments on the need for action on the intersection of climate and trade policies, there have been remarkably few focused efforts at international dialogue – especially multilateral dialogue – among policy-makers and trade officials on the opportunities and challenges linked to trade-related climate policies.

Across the world, countries are poised to ramp up the design and implementation of climate policies, including a range of green industrial policies to support decarbonized, resource-efficient, nature positive and circular economies.²¹⁷ In addition to much-discussed BCAs, a range of possible climate policies and measures have trade policy dimensions and trade implications, including carbon-related standards applied to domestic and imported goods. The purposes of measures range from ensuring domestic industries are not harmed by an uneven playing field to reducing trade that undermines climate goals. Key concerns of climate action advocates are the extent to which trade and investment rules enable or constrain the scope for implementing ambitious climate policies and the risk of trade disputes that challenge domestic climate policies. Their focus is on ensuring that trade rules not only enable climate action but more proactively support and encourage it, providing clarity that empowers countries to take action without the chilling effect of uncertainty about the potential for legal challenges. From the trade perspective, key priorities are to ensure that tensions over such measures are effective, fair and transparent, and do not unnecessarily distort markets or disguise protectionism in ways that undermine already tenuous international cooperation on trade or provoke ‘trade wars’.

In 2021, a key priority for governments should be to commit to transparency, consultation and coordination on climate policies related to trade, and vice versa; and to provide political support to high-ambition climate action within trade policy frameworks. Following is a synopsis of six areas where climate-trade cooperation is especially vital.

Border carbon adjustments and carbon pricing

As countries and subnational jurisdictions move ahead on carbon pricing – and on related taxation and emissions trading schemes – many are also considering policies designed to: avoid ‘leakage’ of carbon-intensive production to other countries, incentivize trading partners to decarbonize and limit competitive threats from products produced beyond national borders that are not subject to equivalent carbon pricing or standards.²¹⁸ Border carbon adjustments are one of the potential

policy tools actively being considered by some governments. The challenge for governments is how to pursue such measures in ways that also address concerns about transparency, guard against unfair disguised protectionism, comply with WTO rules and avoid climate-related 'trade wars'.²¹⁹ In 2021, BCAs are a key topic on which governments should commit to increased international transparency, consultation and cooperation to manage these concerns and limit unintended consequences, especially for the poorest countries. As a first step, governments could work toward a set of agreed principles and good practices for the design and implementation of BCAs.

To date, a variety of carbon pricing schemes have been adopted around the world, including in the EU, China (scheduled price on carbon), South Korea, Japan, Mexico, Canada, the United Kingdom, with some state – and local-level carbon pricing systems in the US (e.g., California at the state level). These schemes vary widely, however, in terms of ambition and scope, as well as progress on implementation.²²⁰ In a world of international supply chains and integrated economies, the significant hurdles that governments face when introducing carbon pricing systems are even more complex and difficult when international competitiveness and effectiveness are taken into account.²²¹

WTO members actively considering BCAs include the EU, Canada, China and Mexico.²²² The US has also stated that it will: 'explore and develop market and regulatory approaches to address greenhouse gas emissions in the global trading system. As appropriate, and consistent with domestic approaches to reduce US greenhouse gas emissions, this includes consideration of carbon border adjustment'.²²³

Key issues for attention in the design of BCAs, and which will impact their significance for international trade, include the scope of the BCA, as well as the nature and level of the proposed tax, and whether an export rebate or adjustment is proposed.²²⁴ A further issue is how governments will evaluate the CO₂ of imported products for the purposes of applying the appropriate taxation, as well as the interaction between national/regional carbon pricing regimes and the BCA systems of trading partners. Another issue relates to the compatibility of BCAs with WTO rules. In principle, Article XX of the General Agreement on Tariffs and Trade (which provides the possibility of environmental exceptions to the application of WTO rules) could apply to BCAs; but the scope for such exceptions will depend on the detail of how BCAs are designed.²²⁵ As no BCA has yet been implemented or contested, Article XX is untested on this issue. In order to be deemed compatible in the case of a WTO challenge, BCAs will need to be demonstrably environmental, not protectionist in intent and refrain from discriminating arbitrarily between countries where the same conditions prevail.

An additional set of issues relate to the impacts of BCAs on trading partners. Critics argue that border carbon adjustments 'risk becoming a climate-based sanctions regime' that will negatively affect developing countries, going against the Paris Agreement's principles of equity,²²⁶ the nationally-determined nature of NDCs and placing too much of the burden of transition to a carbon-neutral global economy on the poorest countries.²²⁷

At present, the EU's BCA proposal is the most advanced. Following its commitment to increased ambition on carbon pricing in the European Green Deal,²²⁸ the European Commission has published its proposal for the introduction of a carbon border adjustment mechanism by 2023. To address the difference between the price

of carbon that European goods subject to regional pricing of CO₂ emissions (through a combination of an emissions trading scheme and carbon taxes) have to pay and the price of goods from countries in which lower or no carbon taxes are levied, the Commission proposes a parallel system aligned with the EU's ETS, which will require importers to buy permits for the amount of carbon emitted through the production of imported goods.²²⁹ The proposal is to focus initially on several specific energy-intensive sectors, namely: iron, steel, cement, fertilisers, aluminium and electricity.

In the case of CBAM, non-EU countries have called on the EU to draft its regulations in accordance with principles of fairness²³⁰ and there are calls for greater attention to addressing economic and social impacts that CBAM could have on developing countries.²³¹ UNCTAD, for instance, has estimated that the EU's CBAM proposal could shift trade patterns in favour of countries where production is relatively carbon efficient and impose higher trade costs on developing countries.²³² While noting that CBAM could potentially serve to avoid carbon leakage, UNCTAD estimates that its impact on climate change will be limited – leading to only a 0.1 per cent drop in global CO₂ emissions.²³³ At present, although the Commission's CBAM document proposes an initial three-year transition period, even the reporting requirements it outlines will be very burdensome for some developing country businesses. The CBAM proposal does not set out any formal exemptions or transition period specifically targeting developing countries in general or the poorest among them. A further issue relates to the purposes to which the proceeds of taxes will be applied. The EC proposal has not taken up recommendations that CBAM revenues be invested in innovation funds to help both EU and third countries in their green transition.²³⁴

A significant amount of policy analysis is being spurred by uncertainty and fear about how BCAs will work, both politically and technically, and how to ensure they incentivize other major emitters to embark on decarbonization, rather than provoke trade wars.²³⁵ To date, much of the focus has been on the options for transatlantic cooperation. The idea that countries implementing border carbon adjustments could form clubs in the form of 'carbon customs unions'²³⁶ to simplify trade among them is provoking considerable discussion among policy analysts and concern among those fearful of being excluded (see Box 5).²³⁷



A significant amount of policy analysis is being spurred by uncertainty and fear about how BCAs will work, both politically and technically

In practice, while advocates make a compelling case that a global carbon price would be the best way to simultaneously drive decarbonization and avert trade tensions,²³⁸ the political prospect that key global economic players such as the US will introduce effective carbon pricing systems in the short term – or that governments will agree on a global carbon pricing system – is limited. In the meantime, the pertinent policy question at hand is how to forge trade-related cooperation that can propel ambitious climate action in the context of different approaches to climate policy and regulation. An immediate priority should be a greater international dialogue on the

scope and implementation of BCAs, the opportunities and challenges they present for advancing climate goals, and their implications for trading partners.

Box 5. Carbon clubs

The concept of 'carbon clubs' is gaining attention in global climate policy discussions as a way to enhance cooperation among small groups of countries that are willing to lead on the transformation to a low-carbon economy.²³⁹ To address challenges arising from the voluntary, non-binding nature of the Paris Agreement, one proposal is that higher-ambition countries could form a club that would impose small trade penalties on non-participants to reduce free riding and to incentivize a large stable coalition of countries to take stronger climate action.²⁴⁰ The club members would agree to a target carbon price and impose a uniform tariff on all imports from countries that refuse to join the club (that is, a carbon customs union). Critics warn, however, that carbon club proposals overplay the problem of free riding as an obstacle to decarbonization (compared to domestic politics, for instance), and that the focus on punishing or penalising others will not necessarily generate the required green transformation in trading partners, especially where countries lack the relevant technologies, investment and trading opportunities. Critics argue that this approach risks undermining the international cooperation required in the UNFCCC context.²⁴¹

Green subsidies for climate action

Greater attention to subsidies that are harmful to the climate and those that could support climate action will be vital to build understanding of policy options and considerations across the WTO's membership.²⁴²

In addition to the reform of environmentally harmful fossil fuel subsidies, ongoing discussions at the WTO on 'industrial subsidies' (non-agricultural subsidies) are relevant to climate action. Moving beyond narrowly defined WTO exceptions for environmental subsidies (as envisioned in the now-expired Article 8.2 of the WTO's Agreement on Subsidies and Countervailing Measures), there are proposals for a wider approach that would permit 'green' subsidies to support the scale-up and deployment of clean energy and climate change adaptation measures and address negative environmental externalities.

Long-standing efforts to address agricultural subsidies at the WTO also warrant attention as part of a discussion on trade, subsidies and climate action. Several WTO members are calling for attention to agricultural subsidies that are both trade distorting and environmentally harmful.²⁴³ At the same time, many governments seek to use subsidies to promote transition to low-carbon environmentally sustainable, regenerative agriculture and food systems, to improve sustainable land-use management and support efforts to protect, sustainably use and restore biodiversity. As the nature and climate crises intensify domestic pressures for action, governments will face important questions about what counts as a green agricultural subsidy, how such subsidies impact trade and how governments can cooperate internationally on this intersection.

A core issue in this context is to identify instances where additional flexibility is needed in existing rules to foster a low carbon transition. This would require discussion on areas where existing rules are too stringent and impeded the ability of countries to provide good faith environmental subsidies. Another fundamental aspects is that many developing countries have limited capacity to provide green

subsidies, especially compared to the major economic powers. Such subsidies have implications for the international competitiveness of developing countries and their efforts to build their own green sectors and technological capacity, particularly in the face of simultaneous pressures to open subsidized green technologies from developed countries. Further, efforts to use trade rules to reduce or promote subsidies for climate reasons are likely to encounter broader political tensions related to subsidies for state-owned enterprises, a topic which is at the heart of US–China conflicts and WTO reform debates on how to manage China’s status as a non-market economy.²⁴⁴

Notably, in December 2020, the US issued an unexpected subsidies-related proposal for a WTO ministerial decision stating that the failure to adopt and enforce environmental protections at or above a threshold of fundamental standards should be considered an actionable subsidy under the WTO’s Agreement on Subsidies and Countervailing Measures.²⁴⁵ While it is unclear whether the Biden administration will seek to advance this proposal, it provides an important indication of how seriously governments are taking concerns about the impacts of green policies (and lack thereof) and subsidies (positive and negative) on international competitiveness.

Climate standards and labels

Climate-related standards have an important role in underpinning climate-friendly international trade. In 2021, governments can agree to step up work to identify where and how to strengthen international cooperation on the design and implementation of climate-related standards that are ambitious, effective, transparent and that address the varying circumstances of developing countries and the challenges their businesses encounter in the shift toward sustainability.

Across the world, governments, companies and NGOs are making growing use of climate standards and climate-related product labels that differentiate between products based on energy use, greenhouse gas emissions and carbon footprints, and sometimes establish new market requirements. Although government and voluntary efforts are especially prevalent in regard to agricultural goods, there are also efforts to develop an array of ‘carbon-neutral’, ‘net zero’ and ‘carbon-negative’ industrial goods (such as carbon-neutral aluminium and ‘carbon-free’ steel)²⁴⁶ and consumer products.²⁴⁷

Although the intersection of trade rules and climate standards is not a new topic,²⁴⁸ the proliferation of climate standards and labels calls for more coordinated and harmonized approaches to measuring and tracking the carbon impact of products.²⁴⁹ Climate standards and labels can offer new market opportunities for some producers; but compliance can be costly and technically complex for small-scale producers, exporters and supply chain management.²⁵⁰ In the agricultural sector, for instance, measuring a product’s carbon footprint requires collection of data on greenhouse gas emissions from many processes in the supply chain, ranging from clearing land, ploughing fields, applying fertilisers and pesticides, harvesting and storage through to packaging, transport and consumption. Diverse businesses around the world share concerns that inadequate information on climate standards and labelling requirements will impede their market access, and many developing country exporters – especially micro, small and medium-sized enterprises – require support to meet the standards and the costs of certification.²⁵¹ At present, the use of climate standards is less prevalent in developing countries. Meanwhile, competing schemes making a range of different climate-related claims contribute to poor understanding and scepticism among consumers.²⁵²

Looking ahead, trade policy-makers could advocate and support greater coordination among countries around high-ambition, transparent climate standards, identifying key areas in which standards are most needed to avoid trade conflicts and support business efforts to advance climate action.²⁵³ Such coordination can occur through cooperation on government regulations that define standards, including through mutual recognition of standards and bilateral efforts to align standards. Strengthened cooperation among the range of national, regional and international bodies that set voluntary standards would also help. Here, the ISO has established a taskforce to review its entire suite of climate-related activities and the range of its standards that are relevant to climate change (which include standards on the measurement of carbon emissions). In September 2021, the ISO's 165 members issued a London Declaration that "promises to embed key climate considerations into every new standard that is created" and to "retrospectively add these requirements to all existing standards as they are revised, a change on an unparalleled scale."²⁵⁴ The fact that WTO rules explicitly refer to the ISO as a potential source of international standards makes this organization a particularly useful forum through which to enhance cooperation. At the same time, the development of international climate standards at the ISO or through other international environmental processes will demand far greater engagement from environmental stakeholders, scientists and government ministries responsible for climate, and far greater support for countries and businesses, especially in developing countries. Moreover, the existence of a standard, especially a voluntary standard, does not guarantee adoption and implementation by relevant businesses, nor verification of compliance.

A key issue for their attention is the interaction between trade rules and climate policy measures that seek to differentiate between products based on their contribution to carbon emissions. At present, international trade rules do not provide clear guidance on the scope for trading partners to impose measures that differentiate between products on the basis of non-product-related production and process methods (PPMs) (for example, measures that discriminate among products based on production and process methods that leave no trace in the final product itself, such as the carbon footprint of production). Any update of WTO rules to address this issue would require multilateral consensus which is likely impossible to achieve in the short term (in part because it could open the floodgate to discrimination based on a broad range of environment and social considerations).

What is clear is that the trade dimensions of climate-friendly standards will require more concerted and focused discussion than currently takes place in the WTO's Committee on Technical Barriers to Trade (which is a key WTO process through which governments address issues and concerns related to environment-related trade measures) or the WTO CTE. Drawing on the WTO's existing principles for the development of international standards,²⁵⁵ one alternative possibility that would not require multilateral consensus is for like-minded governments to develop voluntary guidelines on PPM-based climate standards in the WTO context. This work could, for instance, be advanced through the CTE or through the Structured Discussions on Trade and Environmental Sustainability. Additional proposals that could be undertaken multilaterally (most effective but least likely) or plurilaterally could include a new 'Rules on Methods of Production' agreement within the WTO²⁵⁶ or a WTO climate waiver that would allow discrimination based on the carbon footprint of products (discussed below).²⁵⁷

Meanwhile, cooperation on the content of such climate standards themselves is occurring outside the WTO – through inter-governmental processes like the UNFCCC,

through sector-specific talks at the UN (such as on food and agriculture), through international voluntary standards, such as those developed by the ISO, through other bilateral and regional efforts at harmonization or mutual recognition and through private sector and practical efforts. On food and agriculture, for instance, there is a proposal to develop a new Codex Planetarius, which would be negotiated through the Food and Agriculture Organization, which would set minimum international environmental standards for agriculture and food production and trade, including on land-use management, deforestation and the carbon intensity of production.²⁵⁸ The EU is already working to develop a carbon passport for internationally traded products using blockchain technologies and the International Telecommunications Union (ITU) is also exploring options for an international carbon passport, similarly using blockchain technologies.²⁵⁹ Across such efforts, a core priority will be to build international consensus around definitions and measurements of climate-friendly production and carbon footprints.

Green government procurement

Dialogue is also needed on how trade policies and rules can enable the use of green government procurement to support climate action (such as through procurement of electric vehicles and renewable energy systems) while addressing trade-related considerations.

Government procurement policies (along with other green industrial policies) can help build and strengthen national green industries around the world. Politically, procurement policies and decisions that favour local green producers and support local employment in new green industries can bolster the popularity of climate policies, especially where efforts to phase out emissions-intensive industries is leading to job losses. On the international stage, however, they raise concerns about green protectionism and discriminatory treatment of foreign producers.²⁶⁰ From a trade viewpoint, if a government were to favour or subsidize local green producers, this could cause injury or displacement in export markets and erode the competitiveness of foreign exporters seeking access to local markets. This prospect is of particular concern for countries that cannot afford equivalent green procurement measures to boost local green industries.

While trade rules do not technically prevent a government from pursuing green procurement, they do require that governments do not discriminate between domestic and foreign suppliers or among foreign suppliers. The challenge for climate and trade policy-makers is to enable governments to adopt and maintain green procurement measures (such as relating to investment in or provision of goods and services for climate action purposes) in ways that address the domestic political economy of climate action while avoiding discrimination against foreign producers.

Already, there have been some efforts in this respect. The EU–Canada Comprehensive Economic and Trade Agreement (CETA), for instance, includes environmental purposes as one of the reasons for which countries may be exempted from national treatment obligations with regard to government procurement.²⁶¹ At the WTO, a key question for discussion is the possibility of extending existing exemptions from General Agreement on Tariffs and Trade national treatment obligations (Article III:8) for ‘governmental or development purposes’ so that environmental issues are also covered, along with other modifications that would support inclusion of environmental criteria in government procurement decision-making.

Recognition of the need for greater clarity has already led governments to add consideration of options for green government procurement to ongoing discussions on the reform of the WTO's Government Procurement Agreement. Looking ahead, green government procurement is a clear candidate for enhanced attention and engagement at the WTO and in regional trade arrangements.

Trade in agricultural commodities, climate change and deforestation

Trade in agricultural commodities is one of the most challenging issues on the international trade agenda. Calls for efforts to address the links between agricultural trade, climate change and biodiversity loss add to an already complex set of talks, where issues of market access and agricultural subsidies have been a focus of extensive debate with little resolution over the past several decades. Notably, there are two sides to this issue: on one side is international cooperation on trade policies and rules to better tackle the impacts of agriculture and commodities trade on climate change, and on the other side are the impacts of climate change on agricultural production, trade and food security.

A core area of policy debate concerns agriculture trade and deforestation. Concerns about the climate impacts of tropical deforestation have inspired a range of private sector partnerships and pledges to promote deforestation-free international supply chains and eliminate deforestation arising from the production of agricultural commodities, such as palm oil, soy, paper and beef products. Many such pledges have, however, failed to achieve their targets.²⁶² The challenges of ensuring accountability and enforcement of voluntary commitments to deforestation-free supply chains are driving calls for tougher regulatory and trade policy approaches. Central among these frameworks are new domestic laws and legislative proposals in a number of developed countries that place due diligence requirements on their companies for environmental impacts across their international supply chains.²⁶³ Building on long-standing efforts to reduce trade in illegally harvested tropical timbers, a number of developed countries are also working to promote more climate-friendly, deforestation-free supply chains for a wider set of non-timber agricultural goods and natural resource-based commodities that are associated with unsustainable deforestation.

While pressure for deforestation-free supply chains has strong appeal for many constituency groups, there is also a push to frame the issue more widely to consider how trade and trade policies are relevant to and could promote sustainable land-use management, farming and food systems.²⁶⁴ The strategies and proposals on the table vary widely, and a key challenge is to discern which strategies and tactics (and which combination of 'carrots' and 'sticks') would be most effective at achieving the desired reforms on the ground. The EU, for instance, is under pressure from environmental constituencies to use trade pressure to compel stronger action to prevent deforestation (such as in the case of the EU–Mercosur trade agreement), including through withdrawal of trade benefits and the refusal to conclude trade deals with countries deemed not to be doing enough to meet their Paris goals.²⁶⁵ Another area of focus is on greater coherence, transparency and coordination across the many agriculture and forest-related standards and labels, as well as more support for developing country producers to meet such standards. Notably, a number of developing countries and countries that are reliant on agricultural exports offer a further perspective on sustainable agricultural trade, arguing that a top priority must be the removal of subsidies and trade barriers that

are trade-distorting, noting that these can be environmentally harmful, send the wrong incentives to producers and frustrate their ability to compete effectively in green markets.

The question of how the trade policy arena could best promote climate-friendly, nature positive agricultural trade is a vital topic for intensified discussion, starting in 2021. Multilateral processes provide an important space for dialogue on trade, climate, sustainable agriculture and deforestation issues, offering different dynamics than discussions that occur in the context of specific bilateral trade relationships. At the WTO, several topics relevant to sustainable agricultural trade have been noted by governments as worthy of focused attention in the Structured Discussions on Trade and Environmental Sustainability, including best practices for: tackling production and trade in deforestation-risk commodities, disciplining environmentally harmful agricultural subsidies, identifying where and how subsidies can play a positive role in supporting a shift toward more sustainable agricultural trade, and the dealing with opportunities and challenges related to sustainability regulations and standards in the agricultural sector. Governments could also use the follow up to the October 2021 UN Food Systems Summit to consider proposals for a new Codex Planetarius at the Food and Agriculture Organization; the proposed codex would set minimum international environmental standards for agriculture and food production and trade, including on land-use management, deforestation and the carbon intensity of production.²⁶⁶ Following the launch at COP 26 of the Glasgow Leaders' Declaration on Forest and Land Use and the FACT Dialogue roadmap for action, there will be a need for concerted efforts to translate into action new commitments to increasing finance for forest ecosystem protection and to shifting trade and supply chains away from deforestation-linked products.²⁶⁷

WTO waiver for climate action

Concern that action on ambitious national climate policies may be thwarted by trade disputes, and that fear of such disputes may dissuade governments from such action, has prompted calls for governments to agree on a 'climate waiver' at the WTO.

To date, few of the climate measures that countries have adopted have been challenged at the WTO. This reflects the fact that WTO rules provide members with important scope for environmental action and that the WTO dispute settlement system has provided important guidance on the interpretation of WTO law and on the scope for environment-related measures.²⁶⁸ However, as many governments are only just beginning to design and implement the ambitious policies needed to meet the Paris Agreement goals, it is too early to know whether these will face challenges of WTO compatibility and what the verdict will be. Numerous trade remedies (such as anti-dumping and countervailing duties) already in play on Chinese and Indian solar exports, along with the eight WTO disputes on the solar sector since 2007, are an indication that we should not expect countries to shy from legal action in the trade arena where concerns about competitiveness arise.²⁶⁹ (The rising number of trade remedy cases notified to the WTO that relate to the renewable energy sector has prompted numerous proposals for restricting the use of trade remedies on the grounds that, if abusively and indiscriminately applied, they could hamper the growth of global markets for clean energy, constraining the lower prices and higher trade needed for clean energy to compete with fossil fuels.)²⁷⁰

Whether a given climate policy or measure is WTO-compatible depends on complex technical and legal aspects of its design and implementation. At present, the scope of

actions that governments could defend in the case of a WTO dispute is not certain, in part because what constitutes 'climate action' is not precisely defined under the Paris Agreement. The potential for an escalating number of trade disputes raises concerns not only about their implications for climate action but also about the pressure this could put on an already fractured system for multilateral trade cooperation.

Rather than amending WTO rules to clarify and widen the scope for climate action, the proposed waiver would instead enable WTO members to apply existing rules differently to 'certain kinds of measures that relate to climate actions' in 'carefully defined and limited circumstances'.²⁷¹ The specific proposal is for an initial temporary waiver that could later be made permanent.

The political prospects for multilateral agreement on such a climate waiver in the short term at the WTO are slim. However, it is plausible that a core group of key global economic players or (less ambitiously) like-minded countries could issue a carefully crafted political statement to confirm and raise awareness of the existing margin for WTO-consistent climate action, which in turn may reduce the risk and fear of challenges to legitimate high-ambition climate policies.²⁷² Such a statement could include an undertaking that climate measures should: be as objective, neutral and transparent as possible; involve prior consultation with key impacted trading partners; be implemented in ways that minimize market distortions;²⁷³ and seek to address challenges faced by developing countries.

6. Enhanced ambition on trade-related transport emissions

In 2021, trade policy-makers should foster more ambitious cooperation to reduce trade-related transport emissions.

Road, air and maritime transport each raise distinct climate-trade policy challenges and decision-making on trade-related transportation emissions is fragmented. The IMO is the key international agency responsible for preventing pollution from ships, whereas ICAO is the most relevant international forum to reduce emissions from aviation. While both the IMO and ICAO do host some climate-related discussions, neither has environmental objectives in its core mandate. Regarding road transport, most climate discussion and action occur at the national level, although there are also some important regional level discussions on ways to reduce the climate impact of land-based trade-related infrastructure and support low-carbon options.

Although technological possibilities are expanding rapidly, many existing commitments to decarbonize transportation have distant time horizons and are viewed by critics as too little too late. A number of options are on the table for cutting trade-related transport emissions. One option is to shift to lower-carbon shipping, land transport and aviation through technological advances (from fuel efficiency measures to a switch to hydrogen-based fuels). A second option for emissions reduction is to eliminate unnecessary air travel, while a third option is international cooperation to reduce the speed of ships. A further option is to consider where and how international transportation of goods could be reduced. Calls to reduce international trade (and, for instance, to favour local products) provoke considerable debate. While there is an array of compelling environmental and social reasons to support and consume locally produced products, the more complex picture is that imported goods may be produced in less carbon-intensive ways than domestic

products, offsetting carbon costs linked to the emissions associated with their transportation. International trade may also be central to efforts to reuse, refurbish, remanufacture or recycle goods in ways that support decarbonization through more material efficient and circular business models.²⁷⁴

At the global level, governments have not agreed on how or where to address emissions from maritime shipping and international aviation that are generated beyond national territories.²⁷⁵ These so-called ‘orphan’ emissions are not accounted for in nationally determined contributions under the Paris Agreement. Numerous efforts are under way to tackle the tasks of measuring and monitoring trade-related transportation emissions and to design appropriate policy and regulatory responses.²⁷⁶

In 2021, a key priority is to galvanize political interest, raise ambition and connect the dots between disjointed approaches underway through multiple international agencies and processes (see Box 6). Trade ministers could, for instance, agree to: tackle trade-related transportation emissions through a package that would bring forward a common set of time-bound targets; promote greater accountability for voluntary carbon offset schemes and corporate pledges; and incentivize the use and transfer of new technologies to reduce transport-related climate emissions.²⁷⁷ Governments could also voluntarily include a reduction of their international transport-related emissions in their national climate targets and nationally determined contributions.

Box 6. Sample of commitments to reduce emissions linked to international transportation

In 2016, ICAO agreed to create by 2021 the first global carbon offsetting scheme – the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). To stop growth in CO₂ emissions, the scheme aims to make airlines offset emissions from routes included in the scheme by purchasing units generated through projects that reduce emissions in other sectors (like renewable energy).²⁷⁸ In 2019, governments strengthened CORSIA by agreeing to cap aviation emissions from 2020. The purchase of offsets for growing international flight emissions is expected to generate some \$40 billion in aviation-funded climate finance by 2035.²⁷⁹ At the regional level, the European Commission's Fit for 55 proposal aims to reduce the free allowances for CO₂ emissions allocated to airlines under its ETS,²⁸⁰ eliminate jet fuel tax exemptions (but will not reduce this for a decade) and mandate greater use of sustainable aviation fuel (SAF). The CORSIA regime and European ETS decisions relevant to aviation both raise numerous trade policy questions, including on WTO compatibility.

In 2019, the IMO announced a package of CO₂ reduction measures for the existing global shipping fleet, including 'legally binding measures to ensure a 40-per-cent reduction of carbon intensity across the global fleet by 2030, compared to 2008' and a goal of 100 per cent decarbonization 'as soon as possible after 2050'.²⁸¹ Lamenting the IMO's response as too slow and unambitious, critics are arguing for further and faster reduction, including through international agreement to reduce emissions by slowing the speed of ships,²⁸² as well as the removal of subsidies and the imposition of new taxes on shipping fuels. At the regional level, the EU has included the development of market measures on decarbonization of shipping as part of its Paris Agreement implementation strategy. Under its Fit for 55 proposal, the EU proposes the extension of its ETS system to maritime shipping from 2023, thus obliging shipping companies arriving in the EU to buy ETS permits or risk a ban from EU ports.²⁸³ It has also introduced a mandatory greenhouse gas emission rating system to measure the carbon intensity of ships calling into its ports and to serve as a yardstick for improving carbon efficiency. Meanwhile, the UK has set zero emissions targets for all ships built after 2025, and has stated it will prohibit access to British waters for the most polluting ships.²⁸⁴ Within the shipping industry, several leading companies have pledged to achieve carbon neutrality over various time horizons,²⁸⁵ including by converting ships to less carbon-intensive fuel sources.²⁸⁶ Optimism about the prospects of hydrogen-based fuels in shipping is growing, especially among leading producers such as Scotland, England, Germany and Japan,²⁸⁷ although the potential for their wide-scale use will require various technical and economic challenges to be overcome.

For road transport, many governments are working nationally to incentivize the shift from diesel and petrol cars to electric-powered vehicles, and to shift road national and regional transport infrastructure towards lower-carbon rail. Notably, while investment and trade in electric vehicles is growing fast, this is not without environmental impacts; electric vehicles still rely on the generation of electricity (which is not always from clean energy sources), and on the production at vast scale of batteries to store fuel, which require the highly energy-intensive extraction of mineral resources such as lithium, cobalt, nickel, copper, manganese, rare earths and graphite. Global demand for minerals that are key for a low-carbon economy – including for electric vehicles – is predicted to rise by 965 per cent (for lithium), 383 per cent (graphite) and 108 per cent (nickel) from 2017 to 2050.²⁸⁸ Extraction of such resources raises a range of environmental concerns related to natural resource governance, deforestation and biodiversity loss, as well pollution in local communities.

Pathways forward on climate and trade in 2021

The international trading system has a central role to play in supporting global efforts to achieve the Paris goals. The final lead-up to COP26 provides a critical opportunity for governments and stakeholders to underscore the need for dialogue and coordination on how trade and trade policies can be harnessed to support climate ambition. In the coming months, governments can and should catalyse structured dialogue around a package of climate-trade priorities that can galvanize action and commit to engaging in processes to sustain political momentum.

Galvanising political cooperation on climate and trade

Fostering stronger international cooperation to align trade policy with climate goals will require countries to get their own houses in order. A top priority must be to break down silos domestically between trade and climate policy-making processes by strengthening consultations among ministries, engaging actively with stakeholders from business and civil society and assessing the climate impacts of trade policies and rules, as well as the risks of a failure to act.²⁸⁹

On the international front, the time has come to weigh up the many climate-trade proposals on the table, tackle the various emerging tensions and promote coordination. There is no one place where climate change will be integrated into trade policy, or trade considerations into climate policy-making. For trade policy to support meaningful climate change mitigation and adaptation, tough and complex issues must be broached around competitiveness, fairness, transparency and coordination. International cooperation will be needed in numerous forms – on trade rules and regulatory cooperation as well as policy dialogue and financial assistance – and through multiple processes, multilateral, plurilateral, bilateral and national. Making progress on the policy goals highlighted above will require high-level political leadership and coalitions that can raise political momentum and drive climate-trade cooperation across international processes and policy forums.

Although the COP26 agenda is already too full to handle the added complexity of climate-trade issues, the conference is an occasion to secure political commitment to cooperation and action on the intersections of trade and climate policy-making, and to devise pathways forward. Plurilateral efforts to address climate-trade issues, like the ACCTS negotiations, along with regional, transatlantic and bilateral efforts (e.g., US–EU, US–EU–Japan, EU–China and US–China), all provide important stepping stones toward more effective engagement and cooperation. Processes like the G20 should also be seized as an immediate opportunity for the world’s leading economies and highest emitters to demonstrate political leadership on climate and trade policy intersections.²⁹⁰ But the G20 like the G7 lacks inclusivity. International cooperation on climate and trade must include the wider group of countries that are impacted by policy-making on these issues and have distinct contributions to make on trade-related priorities for both climate mitigation and adaptation.

In these final months of 2021, two concrete efforts to galvanise intergovernmental action and coordination are needed: first, the creation of a trade ministers' coalition for cooperation on climate action; and secondly, an ambitious ministerial statement on trade and environmental sustainability at the WTO Ministerial Conference in November 2021.

Harnessing the political focus on climate in 2021, governments should work this year to bolster international policy dialogue and coordination on trade and climate intersections on two fronts:

A trade ministers' coalition for cooperation on climate action

Governments should agree to create a trade ministers' coalition for cooperation on climate action. Drawing on the example of the Coalition of Finance Ministers for Climate Action and their Helsinki Principles,²⁹¹ this coalition would serve as a focal point for the top-level dialogue needed to solve tough and complex issues around competitiveness, fairness and transparency, and to incubate and advance coordination on trade and climate policy intersections. It could help forge a shared vision of the highest priorities at the interface of climate and trade, how these could be pursued in policy terms and how best to cooperate and connect the dots between different international processes.

Together, the ministers could demonstrate leadership through a joint statement that recognizes the need for urgent action to meet the Paris climate goals, the imperative of a green and just recovery from the COVID-19 pandemic, and the need to achieve the Sustainable Development Goals (SDG) by 2030. The ministers should commit to operate within their national frameworks, competences and mandates to integrate ambitious climate goals into national trade policies and to promote an enabling, transparent and inclusive global trade policy framework that supports and incentivizes climate mitigation and adaptation, including by catalysing action across relevant international processes.

Ministers joining the new coalition would commit to undertake six actions:

- Promote coordination on national trade policies and practices that support implementation of the Paris Agreement and SDG commitments.
- Share experiences and expertise to provide mutual encouragement and promote collective understanding of how trade and trade policies and practices can support the transition to a low-carbon global economy, climate-friendly and resilient supply chains and more resource-efficient, circular, and nature-positive consumption and production.
- Build understanding of the economic and trade implications of climate change, including international supply chains.
- Identify and share lessons on best practices and proposals for concrete individual and collective efforts to advance new approaches to trade and trade policy to advance environmental sustainability.
- Mobilize and enhance green aid for trade initiatives to support trade-related climate change mitigation, adaptation, climate resilience and readiness in developing countries, and to help their businesses and communities compete in and generate greater value from climate-friendly supply chains, including through enhanced South-South cooperation.

- Promote stronger, more engaged dialogue among trade, climate and sustainability ministries and greater alignment of trade policies with climate and environmental goals at the national level and in international diplomacy, including through an annual summit of trade and environment ministers, and across relevant international processes, such as the annual G7 and G20 meetings (where they could agree to combined meetings of climate and trade ministers), and at the WTO and UNFCCC (where they could work for joint meetings of relevant UNFCCC and WTO bodies and officials). These combined meetings would play a critical role in breaking down silos across international processes and within governments that thwart coherence. The coalition could support information-sharing and dialogue on bilateral processes of cooperation, such as those that occur through transatlantic cooperation, and US/EU–China cooperation.

For strategic effectiveness and impact, the coalition should ideally engage 40 trade ministers, including G20 members which are the main contributors to global greenhouse gas emissions,²⁹² as well as diverse countries of different levels of development from all regions. This approach would offer a broader set of countries a seat at the table on climate-trade agenda-setting than is possible through existing processes. It would enable the much-needed involvement of countries most vulnerable to impacts of the climate crisis, alongside those particularly impacted by trade-related action on climate and those championing efforts to align trade with climate goals. It would also strengthen the prospect that climate-trade intersections are pursued in sync with the UNFCCC principle of ‘common but differentiated responsibilities and respective capabilities’, and it would ensure that the critical focus on rapid decarbonization is coupled with a just transition. While adding complexity, a coalition that brings together countries with different interests and approaches to tackling climate and trade intersections would offer Ministers the opportunity to grapple directly on ways forward on some of the toughest issues on the table.

To sustain momentum, ministers could agree to meet quarterly, convened by two or three highly motivated ministers as co-chairs, with organizational and analytical support from their respective governments and interested international organizations. A secretariat could be housed either within a well-resourced government that provides a designated sherpa or an international organisation or trusted independent entity that can serve as an ambitious but neutral convenor.



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Ministerial attention to climate at MC12

At the WTO, Ministers must ensure that discussion of the nexus of trade, climate change and sustainable development is on the official agenda of MC12. The relevance of climate change to the work of the WTO and the importance of trade-related cooperation to support the goals of the Paris Agreement should be clearly mentioned in any official, multilateral ministerial declaration or outcome document of the Conference, including the importance of work on these topics through the WTO's regular committees.

Alongside, the WTO Trade and Environmental Sustainability Structured Discussions (TESSD) provide an opportunity to bolster much-needed multilateral information-sharing and dialogue on climate-trade intersections and to spur more focused attention on these issues in the work of the WTO's regular committees. At MC12, the anticipated TESSD ministerial statement on trade and environmental sustainability should clearly emphasise the importance of achieving the Paris goals and of multilateral cooperation on the interface of trade, climate and sustainable development goals.²⁹³ Ideally cosponsored by the majority of WTO members, the statement should commit like-minded countries to focused discussions on ways that the multilateral trading system can enable and support climate action, including on topics and concerns advanced by developing countries.

Six policy goals to focus minds

In the final months of 2021, governments can lay the foundations for advancing six policy goals, as outlined in Chapter 3 of this paper:

- Commit to greater transparency, consultation and coordination on climate policies and regulations that impact trade, and on trade policies and policies that impact the climate and decarbonization efforts, with special attention to addressing the needs of developing countries and unintended trade consequences. This should include focused dialogue on border carbon adjustments and carbon pricing, climate standards, subsidies, government procurement, sustainable agriculture and a potential WTO climate waiver.
- Promote trade in climate-friendly goods and services. The priority should be on solving specific climate mitigation and adaptation challenges, focusing on those goods, services and supply chains with the highest potential positive impact on the climate. In 2021, like-minded governments could agree to: promote trade in environmental goods and services vital to climate mitigation and adaptation that would address tariff and non-tariff barriers, address developing countries' export interests, focus on supply chains critical to climate action and tackle trade-related barriers to affordable access to critical climate technologies in developing countries.
- Launch of talks on fossil fuel subsidy reform at the WTO that combine a focus on improved transparency of fossil fuel subsidies, a just transition and a timeline for forging cooperation on concrete reform efforts.
- Commit to bolstering green aid for trade and finance to support trade-related climate change adaptation, participation in green international supply chains and the transition to climate-friendly production exports, including through economic diversification. This will require mainstreaming climate considerations across aid for trade portfolios, providing additional resources for trade-related climate action, and fostering coordination between actors responsible for trade, development and climate finance.

- Adopt a 2025 deadline for net zero official trade finance.
- Enhance ambition and cooperation to reduce trade-related transport emissions and decarbonize transportation.

As 2021 draws to a close, governments can and should take advantage of the political attention and momentum provided by COP26 to accelerate the dialogue and action needed to ensure that trade and trade policy play their part in supporting significant, positive climate outcomes – both in terms of mitigation and adaptation – and to tackle trade tensions that threaten to impede ambitious climate action.

Success will require active engagement from environmental stakeholders through advocacy, the development of concrete policy proposals and active participation in processes of dialogue and consensus-building. Critically, efforts to secure practical, short-term solutions to trade–climate challenges must be informed by the reality that systemic change is urgently needed of the way we produce and consume – most fundamentally in relation to our energy and food systems. Our immediate efforts must be driven by a recognition that achieving the Paris goals will require fundamental global economic transformations, engaging all countries as partners.

Annex

Sample of further climate-trade policy options

	Description	Level of action
Border-related measures		
Quantitative restrictions on certain 'climate-unfriendly' imports ²⁹⁴	Quantitative restrictions include bans or other trade restrictions on certain types of products. Some governments and stakeholders, for instance, seek to ban imports associated with tropical deforestation ²⁹⁵ as well as specific products like highly polluting second-hand vehicles. ²⁹⁶ Quantitative restrictions are permissible under WTO law provided that they meet certain conditions, including non-discrimination and equal treatment of imported and locally produced goods.	National, but international cooperation desirable
Removing tariff bias in favour of high emissions-intensity trade and	There are proposals for differential tariff structures, where governments would reform prevailing tariff structures that favour high emissions-intensity trade and that constrain trade more climate-friendly products. Here, options to reduce or punish trade in high carbon-intensive imports include raising tariffs or imposing other levies, restrictions or bans on trade. This would be coupled with efforts to reduce tariffs for trade in essential climate technologies and climate-friendly goods.	National, but international cooperation desirable
Behind-the-border measures and green industrial policy		
Greening government procurement	Governments spend \$9.5 trillion annually in procuring goods, services and public works/infrastructure, and a number of governments are working to channel public procurement towards sustainable energy-related works, supplies and services to help achieve their climate goals. ²⁹⁷ 'Greening' government procurement to support climate goals has important trade policy dimensions. ²⁹⁸ Many international trade agreements incorporate rules on government procurement, and several of these include provisions with environmental dimensions (such as the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, a trade agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam (CPTPP)). ²⁹⁹ Further, at the multilateral level, the 20 parties (and 48 members) of the WTO's Government Procurement Agreement ³⁰⁰ have adopted a work programme on sustainable procurement ³⁰¹ in the context of their efforts to improve implementation of the agreement and potential updates.	National action possible, but international cooperation required
'Green' climate subsidies – agricultural and non-agricultural goods	Green subsidies can include support for research and development on clean energy technologies, refitting of production facilities to meet supply chain requirements, and climate change adaptation. In the agricultural sector, green subsidies can also include spending on environmental programmes and ecosystem services that aim to advance climate-smart approaches to agricultural production, reduce agricultural emissions, improve land-use management and support ecosystems that provide nature-based solutions to climate change mitigation and adaptation. Drawing on the example of WTO approaches to agricultural subsidies, a system of 'boxes' that classify specific subsidies according to their trade-distorting impact (red, amber, green) could be adapted to reflect the negative (red) or positive (green) climate.	National action possible but international cooperation required

	Description	Level of action
Technology transfer and intellectual property rules to spur innovation and increase access to climate technologies	<p>The diffusion and use of affordable, frontier climate technologies worldwide, especially in rapidly growing developing countries, is key to both climate change mitigation and adaptation.³⁰² This has prompted discussion on the extent to which international intellectual property rules (such as the WTO's Agreement on Trade-Related Intellectual Property Rights (TRIPS)) as well as intellectual property (IP) provisions in bilateral and regional free trade agreements are regulatory barriers to affordable access to and uptake of climate technologies. It has also revived interest in how trade rules and processes relevant to technology transfer might contribute to climate action.³⁰³ Technology transfer is also a key aspect of the UNFCCC process, which includes a Technology Mechanism to promote transfer of climate-friendly technologies.³⁰⁴</p> <p>A number of proposals are on the table for reform of IP rules to facilitate broad dissemination and use of climate technologies, drawing on lessons from efforts to promote IP reforms to facilitate access to medicines.³⁰⁵ A first issue is to determine the terms and cost of transferring frontier technologies for countries and companies, especially in developing countries, that are keen to leapfrog carbon-intensive development pathways.³⁰⁶ Proposals focus on creating a balance between the incentives that IP regimes provide for innovation and disclosure of new inventions, and the need for affordable access to new technologies. Specific options that have been suggested include: a TRIPS waiver for certain climate technologies (similar in spirit to the waiver of certain TRIPS obligations for certain countries to increase access to essential medicines); collaborative patent pledges of climate change technologies;³⁰⁷ and efforts to encourage more flexible, non-exclusive, and affordable licensing arrangements for climate technologies.³⁰⁸</p>	National action possible, international cooperation required for some elements
International cooperation and linking of domestic emissions trading systems	<p>Article 6 of the Paris Agreement provides a policy foundation for the use of international carbon markets to reach emissions targets (see Box 1).³⁰⁹ To date, there is only one international system in place for carbon trading, CORSIA, an emissions trading regime related to aviation. A further proposal is for the jurisdictions that currently have domestic emissions trading systems to forge international cooperation among themselves through what some describe as 'carbon market clubs'.³¹⁰ The larger vision is for a fully international system through which countries with low emissions would be able to sell their exceeding allowance to larger emitters. Proponents argue that this would promote a net emissions reduction, advance progress toward a global price on carbon and reduce the cost of emissions reductions by focusing first on the lowest-cost reductions.³¹¹</p>	Requires international cooperation
Efforts to use trade policies and agreements to reinforce the Paris Agreement and its implementation		
Provisions on ratification and implementation of the Paris Agreement in trade agreements	<p>A growing number of regional trade agreements contain environmental provisions that range from non-binding objectives to more specific obligations, including in regard to multilateral environmental agreements, such as the Paris Agreement. The EU–Mercosur Agreement, for instance, transforms the voluntary nature of the Paris Agreement into a binding commitment. In addition, the European Commission has proposed that effective implementation of the Paris Agreement should be considered an 'essential element' or clause of any EU trade agreement, with countries such as France and the Netherlands arguing that a breach of this clause should result in the suspension of the agreement. The Biden administration has also indicated that climate action will be an essential element of any future international trade cooperation. In the UK context, the government faces growing pressure from the environmental community to harness post-Brexit trade deals as a tool for advancing climate ambition and implementation of the Paris Agreement, including through specific climate-related commitments.³¹²</p>	International cooperation

	Description	Level of action
Climate-related trade sanctions	As concern grows about the climate crisis and the inadequate efforts to implement the Paris Agreement, some governments and stakeholders are calling for the withdrawal of trade benefits and/or sanctions for non-compliance. In 2020, for instance, France and the Netherlands called for tougher enforcement of environmental and labour standards in EU trade deals, ³¹³ urging the EU to be prepared to impose higher tariffs against countries that do not respect sustainable development commitments. Options proposed include not only tariffs on imports that do not respect, de facto or de jure, the Paris Agreement, ³¹⁴ but also a broader range of retaliatory tariffs on a range of strategic products. In the context of the EU–Mercosur trade deal (where the increasing rate of deforestation in the Brazilian Amazon is a key concern), there are also calls from civil society to incorporate sanctionable clauses requiring the EU and Mercosur to respect climate or environmental protection in the trade deal. ³¹⁵	National
Climate cooperation in trade and sustainable development chapters and climate impact assessments	The trade and sustainable development chapters included in a growing number of trade agreements offer important institutional mechanisms that could be harnessed to boost trade cooperation that supports climate action. ³¹⁶ There are numerous calls from environmental advocates to strengthen such chapters, including through stronger enforcement and dispute settlement provisions, as well as mechanisms to boost public accountability, such as through provisions that enable the public to file complaints and seek recourse to address environmental impacts of trade agreements. Sustainable development chapters can also be used as mechanisms to spur impact assessments that assess the climate impacts of new trade flows and regulatory changes flowing from these agreements. Importantly, assessments should look at impacts on the national carbon footprint as well as the carbon footprint of trading partners (both those involved in the agreements and third parties). Critically, the assessments should be vehicles for soliciting stakeholder input and engagement and be subject to public scrutiny via specific surveillance mechanisms involving NGOs. Moreover, they must be linked to the policy-making process, including with the potential to review the content of an agreement if its impact is found to be negative.	National, but international cooperation desirable
Enhance transparency and information-sharing on trade-related actions	Nationally determined contributions under the Paris Agreement could be used to enhance transparency and information-sharing on trade-related actions and to boost reporting of climate-related actions and risks through WTO notification procedures and trade policy review processes.	National

Flanking and interlinked areas for climate-trade diplomacy

Trade, investment and climate	In terms of agreements on investment protection and promotion – including investment chapters and rules in trade agreements – there are numerous proposals to ensure that such arrangements do not frustrate climate action. In addition, there are proposals to use such agreements as instruments to positively promote climate-friendly investment in a low-carbon economy, and to screen out investments that undermine climate action. There are also specific calls for reform of the investor–state dispute settlement (ISDS) provisions in trade and investment agreements to better safeguard regulatory space for climate action. ³¹⁷ While not motivated primarily by climate-specific concerns, a number of recent international investment agreements have incorporated efforts to implement ISDS reform or indeed omitted ISDS provisions altogether, thereby highlighting the potential for new approaches. ³¹⁸ In addition, proposals for more transparent and balanced approaches to the settlement of investor–state disputes, including in ways that that would support environmental goals and policies, are under discussion at the International Centre for Settlement of Investment Disputes, the United Nations Commission on International Trade and Law (where some governments have proposed a new multilateral investment court), ³¹⁹ and the Energy Charter Treaty. ³²⁰	National and international cooperation
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	Description	Level of action
	<p>Ongoing negotiations on modernization of the Energy Charter Treaty (ECT), for instance, have featured specific calls to address barriers to climate action policies and clean energy transition.³²¹ Specifically, climate advocates call for removing legal provisions that protect foreign-owned fossil fuel assets, arguing that this would reduce the cost-competitiveness of new and existing fossil fuel projects by altering their risk profile.³²² They also argue that restrictions on fossil fuel investments must be allowed, including through targeted de-risking.³²³ Among ECT member states, however, there is uneven awareness of issues and options, and while some parties (such as the EU) are pushing for reform, others (such as Japan) remain opposed (the US is not a party to the ECT).³²⁴ While the ECT secretariat is keen to increase membership, the EU has threatened potential exit if modernization does not occur.</p>	
Reform of energy markets and trade	<p>Cooperation on international markets for energy and fuels occurs under the framework of international organizations such as the International Energy Agency, regional arrangements such as the Energy Charter Treaty (a European initiative open to any interested parties, which establishes specific regulations for energy, such as on investment and transport), and actions of plurilateral groupings such as OPEC. Although trade in fuels such as oil and gas are not directly addressed by WTO rules,³²⁵ several aspects of the WTO's legal framework apply to problems presented in the energy sector and there have been numerous proposals on how the multilateral trading system could respond,³²⁶ including proposals for a Sustainable Energy Trade Agreement at the WTO.³²⁷</p> <p>Amid pressures for a low-carbon energy transition, numerous proposals have been tabled to improve regulation of international energy markets in ways that would support the expansion of renewable energy, energy-efficient technologies and sustainably produced biofuels, and discipline subsidies for fossil fuel-intensive energy, including through reform of the Energy Charter Treaty (discussed above).</p>	Requires international cooperation.
Supply chain regulations and due diligence requirements	<p>Building on existing regulations related to the timber trade and the illegal trade in forest products, there are proposals for new initiatives to better regulate trade in deforestation-risk commodities. Proposed due diligence requirements on global supply chains call for greater attention to environmental issues, including climate. The European Commission is pursuing the development of a legislative proposal in 2021 that will require EU companies to conduct mandatory human rights and environmental due diligence on their operations and global supply chains. Provisions for corporate liability, with possible sanctions imposed for non-compliance, are also under consideration.³²⁸ Numerous voluntary supply chain initiatives and partnerships also exist (including on issues of procurement, standards, carbon footprint accounting, sustainable sourcing and labelling of products) which are relevant to efforts to reduce the carbon footprint of trade flows.</p>	National, but international cooperation desirable

Acronyms and abbreviations

ACCTS	Agreement on Climate Change, Trade and Sustainability
APEC	Asia-Pacific Economic Cooperation
BCA	Border Carbon Adjustments
CAI	Comprehensive Agreement on Investment (EU–China)
CBAM	Carbon Border Adjustment Mechanism
CBDR-RC	Common but differentiated responsibilities and respective capacities (United Nations Framework Convention on Climate Change)
COP26	26th Conference of Parties, 2021 UN Climate Change Conference (Glasgow, UK)
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation (ICAO)
CTE	Committee on Trade and Environment (WTO)
E3F	Export Finance for Future (coalition of seven European countries)
ECT	Energy Charter Treaty
EGA	Environmental Goods Agreement (WTO)
ERCST	European Roundtable on Climate Change and Sustainable Transition
ETS	Emissions Trading Scheme (EU)
FES	Friedrich Ebert Stiftung
HFC	Hydrofluorocarbon
ICAO	International Civil Aviation Organization
ICTSD	International Centre for Trade and Sustainable Development
IEA	International Energy Agency (OECD)
IIF	Institute of International Finance
IISD	International Institute for Sustainable Development
IMO	International Maritime Organization (UN)
IPCC	Intergovernmental Panel on Climate Change (UN)
ISO	International Organization for Standardization
ISDS	Investor–State Dispute Settlement
ITMO	internationally transferred mitigation outcomes (Paris Agreement)
JWPTE	Joint Working Party on Trade and Environment (OECD)
MC12	12th Ministerial Conference (WTO)

MT	Million Tonnes
MTOE	Million Tonnes of Oil Equivalent
NAP	National Adaptation Plan (Paris Agreement)
NDC	Nationally Determined Contribution (Paris Agreement)
NOAA	National Oceanic and Atmospheric Administration (US)
OECD	Organisation for Economic Co-operation and Development
PPM	Production and Process Methods
QUONO	Quaker United Nations Office
REDD+	Reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries (UNFCCC)
SAF	Sustainable Aviation Fuel
SBSTA	Subsidiary Body for Scientific and Technical Advice (UNFCCC)
SDG	Sustainable Development Goals (UN)
TESSD	Trade and Environmental Sustainability Structured Discussions (WTO)
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Program
UNFCCC	United Nations Framework Convention on Climate Change
USTR	United States Trade Representative
WTO	World Trade Organization
WWF	World Wide Fund for Nature

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