

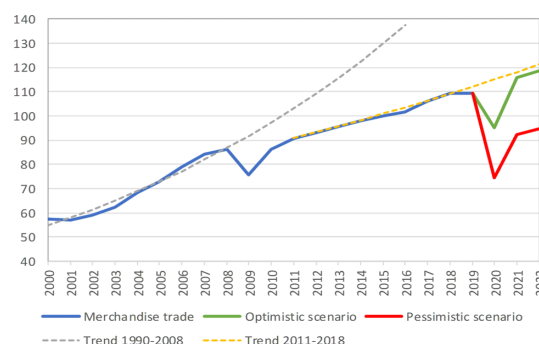
COVID-19: Implications for Trade and Environment

1. COVID-19 and its effects on international trade and environment

1.1 Trade is experiencing an unprecedented contraction during the COVID 19 outbreak and the prospects for a quick recovery of trade depend on the duration of the epidemic and effectiveness of policy responses. WTO Director-General Roberto Azevêdo noted that COVID 19 has caused dramatic supply and demand shocks in the world economy, and these shocks are inevitably causing major disruptions to trade. WTO expects world trade to fall by 13% and 32% in 2020.¹ UNCTAD predicts that global foreign direct investment could be cut up to 40% during 2020-2021, which will have major implications for global value chains.² Further, COVID 19-related trade measures have been implemented by many countries, especially for food stuffs and medical supplies exports, affecting supply chains and food and medical supply availability.³

1.2 Falling prices and decreasing investment will cause major disruptions in supply chains and trading patterns. The collapse of both supply and demand for many goods and services, decreasing investment and falling prices are leading to dramatically contracted trade flows and national incomes. A global recession has already been confirmed by IMF.⁴ Estimates point to current fiscal stimulus measures to tackle the economic crisis in the order of around 2% GDP, which is greater than anything seen during the 2008 financial crisis.⁵ Even though measures are being taken, unemployment is already rising steeply. Many SMEs engaged in trade have gone or will likely go out of business. Stock markets and many commodity prices have already fallen significantly with major effects on trade flows. While some of the losses of output and jobs will be temporary, some will be permanent and economic uncertainty is predicted to persist at least until the end of 2021.

World merchandise trade volume,
2000-2022



Source: WTO Secretariat, 2020

¹ https://www.wto.org/english/news_e/pres20_e/pr855_e.htm, WTO

² https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2313&utm_source=CIO+-+General+public&utm_campaign=0fa89ab0a6-EMAIL_CAMPAIGN_2019_05_17_11_42_COPY_01&utm_medium=email&utm_term=0_3d334fa428-0fa89ab0a6-70616733

³ https://www.wto.org/english/tratop_e/covid19_e/covid19_e.htm

⁴ <https://www.euronews.com/2020/03/28/imf-declares-global-recession-and-doubles-the-size-of-its-financial-war-chest>

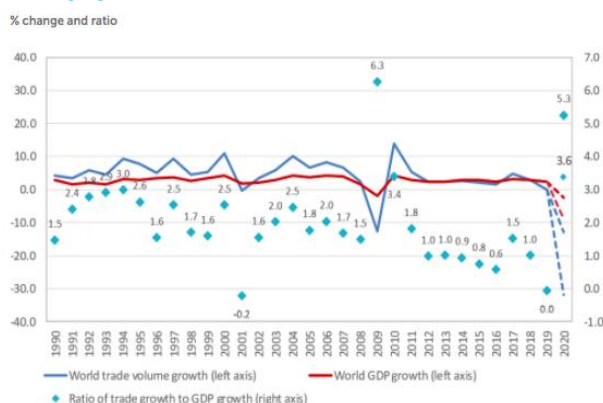
⁵ <https://www.ubs.com/global/en/investment-bank/in-focus/2020/global-stimulus.html>

1.3 Disruptions in the movement of goods, technologies, components and people contribute to a reduction in carbon dioxide emissions but will also hurt green trade flows. Both trends are amplified by the current drop in oil prices. Before the outbreak, clean energy technologies powering the Sustainable Development Goals and global efforts to pursue low-carbon development paths were increasing. In 2019, the IEA predicted that renewable energy capacity will expand by 50% between 2019 and 2024.⁶ Such growth was based on functioning supply chains in climate technology stretching, before the outbreak, from China to Europe to Africa, the United States and Latin America. With the closure of factories, drops in demand and closure of many borders such supply chains have become fragmented. At the same time cheap fossil fuels are putting pressure on the renewable energy sources. Although much has been made of the GHG emissions during the pandemic, whether lower emissions are maintained during the recovery process and in the longer term remains to be seen. Critically, it will depend on whether COVID 19-related behavioural changes (such as reduced air travel and the rise in home-working) and the economic stimulus packages lead to structural changes that induce emission reduction.

1.4 Trade governance reform at risk with future-oriented environmental action at the WTO put on hold. The outbreak has delayed several key forums for discussion of trade reforms, such as the WTO ministerial meeting in Nur Sultan and, up to the moment of the COVID break out, ongoing negotiations on fisheries subsidies reform. Greening trade and supporting a transition to a circular economy had gained significant political momentum in 2019, following the High-Level WTO-UNEP [event](#), and the creation of a number of champions-led informal groups on greening trade policy. Such groups include the Friends for Action on Sustainable Trade (FAST) involving Costa Rica, Switzerland, Canada, the EU and New Zealand, among others; discussion groups on Trade and Climate trade led by France and Canada, and

on Trade and Circular Economy led by Finland and Ghana; and groups on Rules for Reforming Fisheries subsidies led by Norway and Chile, on WTO Fossil Fuel Subsidies reform led by New Zealand and on Trade and Plastic Pollution led by China and Fiji.. A Ministerial Trade and Environment segment was planned for the WTO Ministerial Conference in Nur Sultan in June 2020 based around the outcomes of the negotiations within the leadership group. Further, the Friends for Action on Sustainable Trade (FAST) remain committed to building broad support among WTO Members for a Ministerial Statement on Environmental Sustainability and Trade. However, with the meeting postponed, it is uncertain whether the past momentum can be maintained, especially since the global consequences of the crisis and recovery measures probably will take the largest role in upcoming trade negotiations, and the most appropriate timing for re-energizing this effort.

Ratio of world merchandise trade growth to world GDP growth, 1990-2020



Source: WTO Secretariat, 2020

⁶ <https://www.iea.org/reports/renewables-2019>

2. Reconnecting economies and rebuilding a more resilient and environmentally sustainable trading system.

The following are options to support fast, better and greener recovery aiming for more resilient and sustainable trade:

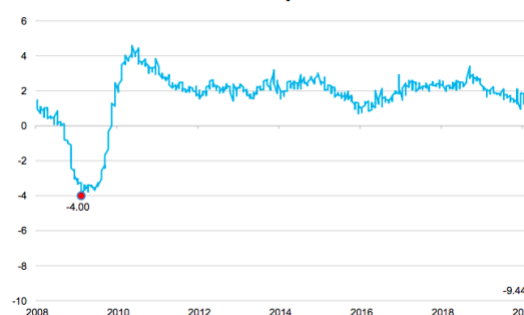
2.1 Incorporating sustainable development and climate resilience and preparedness into trade policies and trade governance. The UN Secretary General has called for a sustainable recovery and a more inclusive path.⁷ Instead of focusing recovery measures on going back to 'business as usual', leaders should take the opportunity to steer the recovery towards more resilient, greener and more sustainable international trade governance and trade patterns. Apart from facilitating trade in green goods and services, it will be crucial for policy makers to focus on recovery measures that internalize externalities and address the negative effects of trade on climate change, pollution and biodiversity loss. This includes reforming, at the WTO, perverse subsidization of fossil fuels and fisheries as mandated in the 2030 Agenda. Such reforms will help enabling a level playing field for trade, competitiveness and avoiding carbon leakage. As the role of regional trade and supply chains grows, it is important that climate, circularity and nature objectives and principles are fully incorporated in regional trade arrangements and policy frameworks.

2.2 Connecting economies for rapid response and facilitating the flow of goods and services for disaster relief. COVID 19 has underscored the interconnectedness of countries and the importance of resilient global value chains and trading system in cases of emergency relief and disaster response. The break down of medical supply chains has severely hampered rapid responses and pointed to the lack of epidemic/pandemic preparedness. However, important lessons have already been learned from those who have managed to expedite imports of medical supplies, including emergency relief while ensuring epidemic prevention and providing adequate customs control and clearance. Some countries have adopted cross-border emergency plans, including measures taken to reduce logistic bottlenecks that have affected trade in medicines, equipment and essential supplies to fight against the pandemic; and, measures to prevent supply chain disruption.⁸ Important lessons can be learned for relief from natural disasters as well, and better, for prevention and resilience.

2.3 Facilitating increase of green trade and green investment flows. Rapid recovery and expansion of green trade and investment will help stimulate economic recovery while boosting the green transition. Proposals to increase trade flow of environmental goods and services (EGS) have attracted broad interest over the past decade, resulting in both plurilateral and regional negotiations aiming to reduce tariffs and non-tariff barriers on environmental goods, for instance, such as renewable energy, managing waste and monitoring the quality of the environment. Estimates have shown that lowering tariffs on a broad range on environmental goods would lead to CO₂ reductions of 10 million tonnes by 2030 while increasing world trade by 1.1 percent.⁹ It will be crucial, however, to provide capacity and

Economic activity has plunged further and faster than during the global financial crisis

U.S. Federal Reserve Bank of New York Weekly Economic Index



Source: Federal Reserve Bank of New York, 2020

⁷ <https://news.un.org/en/story/2020/03/1059752>

⁸ <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2328>

⁹ https://trade.ec.europa.eu/doclib/docs/2016/august/tradoc_154867.pdf

incentives for innovation on clean technologies and enhance developing country participation in green value chains for such goods. UNEP's research has demonstrated that many developing countries have so far not fully benefitted from trade in environment goods and services and lack knowledge and capacity to harness related trade and investment opportunities.¹⁰

2.4 Closing illegal and unregulated wildlife trade is key to reduce the risk of future zoonotic epidemics and safeguard people's well-being and lives. Closure of illegal and unregulated market closures is expected to generate a sizeable reduction in the purchase and flow of wildlife products in the future. According to WWF, unsustainable wildlife trade is the second-largest direct threat to biodiversity globally, after habitat destruction. UNEP Executive Director Inger Andersen has also underlined the linkage between human health, wildlife trade and biodiversity loss.¹¹ Temporary bans already put in place by major actors open an opportunity to fundamentally restructure wildlife trade by promoting sustainable management of wildlife, addressing habitat loss and fragmentation by conserving natural habitats for wildlife. At the same time, it will be important to consider the crucial role wildlife plays for livelihoods, especially for people in developing countries and the role of sustainable and legal trade in wildlife.

2.5 Rebuilding sustainable food chains, promoting local trade and boosting exports in sustainable produce. Uncertainty about food availability amidst the COVID 19 outbreak has sparked a wave of export restrictions on certain food stuffs, including some export bans, creating shortages on the global market.¹² For example, the availability of rice in sub-Saharan Africa has decreased during the outbreak due to disruption of supply chains and national lockdowns.¹³ While the majority of global food supply chains is holding up for now, the World Food Programme (WFP) has warned of further potential major disruptions in food chains, which would have devastating effects especially for African countries.¹⁴ COVID 19 recovery plans are an opportunity to incentivize more green exports of commodities and foodstuffs as well as greater sustainability in food systems. Studies have shown that green agriculture reforms, combined with changes in consumer behavior, could generate annual benefits in cities worth \$2.7 trillion by 2050.¹⁵ Such reforms could help with the economic recovery, as well as building more resilient and sustainable food chains.

2.6 Assisting developing countries in building resilience and greening their export sectors. While already suffering from vulnerability to climate change and other nature-induced incidents, many developing countries are likely to be more affected by the economic consequences of the pandemic. Building resilience will be a key element in supporting green trade and investment flows to the most vulnerable countries. 'Aid for Trade' offers an important tool to build resilience in several ways. It can be leveraged to rebuild economies in a more sustainable and resilient manner, favoring for example export diversification and productive capacity in sustainable agriculture. It can also boost resilience in production and livelihood systems and channel investments in sustainable infrastructure to enable countries to adapt to climate change and respond to natural hazards. As Aid for Trade constitutes roughly 30 percent of total Official

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