



GREENING INTERNATIONAL TRADE

PATHWAYS FORWARD

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About the paper

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Executive Summary

Discussions of environment-trade issues are notoriously complex, opaque and cluttered with legalistic and technical language. Amidst growing pressures for a greener, fairer global economy, environmental stakeholders require information and tools to engage effectively in the trade policy arena. Stakeholders keen to promote green trade face common questions about priorities and strategy, including:

- What updates in the content, implementation and interpretation of trade rules could support green trade?
- Beyond improved trade rules, what other pathways and opportunities could be used to foster cooperation and action on green trade?
- How can trade policy better incentivize, require and support business to prioritize green products, production, and supply chains?
- How can the green trade agenda meet the needs of developing countries?
- How can green trade agendas address the challenges and opportunities for developing countries and respond to their wider sustainable development priorities?
- Where are the political opportunities and prospects for success greatest in 2021, and what kind of alliances would progress require?

To help facilitate progress, *Greening International Trade* serves as a non-technical entry point for actors keen to navigate the environment-trade policy conversation and promote more sustainable trade. It maps the current state of play and identifies a range of possible pathways forward.

Greening International Trade argues that advancing green trade requires a reframing of the environment and trade narrative around a forward-looking Environment and Trade 2.0 agenda that:¹

- Safeguards and strengthens ambitious environmental policies nationally and internationally,
- Harnesses trade and trade policy to incentivize and drive green economic transformation,
- Reduces negative environmental impacts of international

trade and trade policies,

- Supports sustainable, resilient, and fair international supply chains,
- Addresses the wider sustainable development priorities of developing countries and supports a just transition,
- Strengthens alignment of national trade policymaking with environmental goals and sustainable development priorities, and
- Supports democratic, transparent, and accountable processes of trade policymaking.

Making this agenda a reality requires a four-pronged strategy.

First, greening trade must start with strong environmental laws, regulations, institutions, and enforcement nationally, complemented by international environmental agreements that set out shared goals, targets, and obligations, including minimum standards and trade measures where relevant.

Second, in terms of trade policies and agreements, governments can green trade through a strategic approach to measures and tariffs applied at their borders. Governments can also update trade rules and policies relevant to environmental action 'behind the border.' In addition to bolstered environmental and sustainable development chapters in trade agreements, this requires work to ensure the core provisions and commitments defined in trade agreements support environmental goals and incentivize sustainable production and consumption. In each of these areas, the report highlights the importance of consultation with trading partners, transparency, fairness, and approaches that respond to the wider sustainable development priorities of developing countries.

Third, looking beyond trade rules, the report highlights a range of additional pathways to stronger intergovernmental cooperation on green trade that require attention, such as green Aid for Trade and trade finance, improved monitoring, green trade classifications and sustainability impact assessments.

Fourth, the report highlights the opportunities presented by stakeholder initiatives to green trade and supply chains, along with a number of challenges, and identifies how trade policy frameworks could support and complement these.

Introduction

Faced with compounding crises of climate, nature loss, and pollution, the urgent need for a green global economy is rising on the international political agenda. At the same time, the world faces a profound equity problem: acute social and economic inequalities between and within countries are worsening alongside vastly different levels of vulnerability to environmental risks and degradation. The COVID-19 pandemic has shown us the degree to which these issues are inter-dependent and has spurred calls to 'build back better.' From across the political spectrum and from all corners of the world, the vision of recovery is one that is sustainable and equitable.

As governments, civil society and businesses grapple with how to achieve the deep and rapid economic transformations that environmental sustainability requires,² the relevance of international trade and trade policies to this green economic recovery is increasingly clear. A growing range of environmental and other actors know that trade and trade policies are relevant to achieving their environmental ambitions nationally and globally. And the policy environment right now offers stronger opportunities for positive engagement on environment-trade intersections than for many years. To seize this moment, many questions need to be answered. Most central among these are: How can we ensure that trade and trade rules do not provoke or exacerbate environmental harm? How can international trade rules, policies and institutions be harnessed to support progress on shared environmental goals and higher environmental ambition? And which existing international arrangements – national, bilateral, regional, plurilateral or multilateral – are the most promising building blocks for further improvements?

Greening International Trade aims to help environmental stakeholders engage effectively in the trade policy arena, bridging the gap that exists because discussions of environment-trade issues are notoriously complex, opaque, and cluttered with legalistic and technical language. It addresses an array of recurring questions that stakeholders keen to promote green trade encounter about priorities and strategy, including:

- What updates in the content, implementation and interpretation of trade rules could support green trade?
- Beyond improved trade rules, what other pathways and opportunities could be used to foster cooperation and action on green trade?
- How can trade policy better incentivize, require and support

business to prioritize green products, production, and supply chains?

- How can green trade agendas address the challenges and opportunities for developing countries and respond to their wider sustainable development priorities?
- Where are the political opportunities and prospects for success greatest in 2021, and what kind of alliances would progress require?

To help facilitate progress, this paper serves as a non-technical entry point for actors who are keen to navigate the environment-trade policy conversation and promote sustainable trade. It maps the current state of play and identifies a range of possible pathways forward.

Policy opportunities for greening trade

2021 is a significant year for international environmental diplomacy – most notably because of negotiations for a post-2020 Global Biodiversity Framework in October 2021 and the 26th UN Climate Change Conference of the Parties (COP26) in December 2021. The UN Food Systems Summit is also poised to be a key event for boosting the sustainability of food and farming. In each of these international processes, there are important trade-related opportunities and challenges to be addressed. At the same time, countries are working to advance progress on the UN Sustainable Development Goals (SDGs), which provide an overarching policy framework for advancing environmental, economic and social priorities in tandem. Trade cooperation is identified as a core 'means of implementation' to achieve them.

Recognition of the need to integrate global economic and environmental policy making is growing,³ and 2021 offers new openings to advance environmental goals in the international trade policy arena. Among major powers, the European Union (EU) is renewing efforts to align its trade policy with its environmental ambitions, the Biden administration has pledged to re-engage at the World Trade Organization (WTO) and has already reignited its multilateral diplomacy on environment, and China has made several high-level commitments on environmental action. Together, these developments signal that the prospect for political engagement on environment-trade intersections is stronger than in years. Many developing countries are also more open to cooperation on the environmental dimensions of international trade than in the past – especially those with green exports to promote and those already facing the economic costs of environmental degradation that are fearful of the risks of further environmental shocks on their production, infrastructure and trade.

In their preparations for the 2021 ministerial meeting of the UN Conference for Trade and Development (UNCTAD), governments have highlighted climate and the environmental

crisis as one of three key themes for attention.⁴ At the WTO, the launch of Structured Discussions on Trade and Environmental Sustainability in November 2020 provides an opportunity for governments and stakeholders to advance a forward-looking agenda. While negotiations at the WTO have long been stymied – and trade tensions between major players remain significant – the appointment of a new WTO Director General with strong development credentials and a declared commitment to environmental goals is also encouraging.

Meanwhile, a growing range of companies recognise the array of environmental threats to supply chain resilience; the importance of improved environmental performance to their long-term business prospects; and the business potential of global markets for green products. Underlining that business needs a predictable and transparent trade policy framework to incentivise investment in green production and technologies,⁵ and to compete effectively in green markets, a number of business coalitions have joined the call for aligning trade policy with environmental goals.

In short, the political momentum in favour of greening trade is building.

The challenges

International trade diplomacy has, however, long struggled to keep up with changing economic circumstances, policy goals, and public expectations. Considerable political challenges also complicate the task of greening trade.

First, international trade diplomacy must overcome enduring tensions among major trading partners on a range of topics, most obviously between the US and China, but also between the EU and the US, India and China, and between the US and many other countries. In the context of COVID-19, the challenges many developed and developing countries face in accessing critical supplies – of food, energy and medicines – is stretching already frayed notions of international solidarity and jeopardises the potential for international cooperation on trade, on environment and on their intersection.

Second, trade policies and rules are key vehicles through which governments will seek to address issues of competition and fairness in the green global economy – and this may intensify in the context of post-COVID recovery. Important issues of fairness will also arise: developed countries will have far more resources to allocate to greening their economies than developing countries, and few currently meet their commitments to providing environmental and development financing to developing countries. Countries will also pursue a range of different policy and regulatory approaches to meeting shared environmental goals. International trade diplomacy will thus face a triple challenge of promoting higher environmental ambition, while also providing scope for regulatory diversity in how to achieve it, and at the same time minimizing unnecessary or unfair barriers to trade.

A third challenge relates to the process of trade policymaking. Civil society movements underline that large corporate interests have long dominated trade policymaking nationally as well as international trade diplomacy. The limited voice of the diversity of relevant environmental stakeholders and business interests in both developed and developing countries in the definition of national economic goals and in trade policymaking limits the scope for green trade policymaking. At the same time, among civil society groups, approaches to green trade vary widely and there are divergent visions on what sustainability means and requires. There are also very different visions of what a green economy looks like, let alone agreement on the best path to get there.

Trade policy does not occur in a vacuum, but rather exists in a broader, dynamic, and permanently contested context that requires simultaneous attention to the economic and social dimensions of sustainability. Governments intent on forging a greener trade policy are, at the same time, trying to meet the needs of many competing constituencies at home, facing longstanding questions from their citizens about how international trade affects local jobs, the resilience of supply chains, access to essential goods and so on. In addition, to achieve a successful greening of trade, trade policies need to be supported and integrated with flanking policies relating to investment, innovation, intellectual property, finance, debt relief and development assistance.

Key messages

Advancing green trade requires a reframing of the environment and trade narrative and a forward-looking Environment and Trade 2.0 agenda that:⁶

- Safeguards and strengthens ambitious environmental policies nationally and internationally,
- Harnesses trade and trade policy to incentivize and drive green economic transformation,
- Reduces negative environmental impacts of international trade and trade policies,
- Supports sustainable, resilient, and fair international supply chains,
- Addresses the wider sustainable development priorities of developing countries and supports a just transition,
- Strengthens coherence of national trade policies with environmental goals and priorities, and
- Supports democratic, transparent, and accountable processes of trade policymaking.

As governments seek to juggle pressures of competition with the quest for environmental cooperation, views on

which trade policy measures and practical efforts have the greatest potential to advance environmental goals vary widely, as do views on where best to pursue these. Looking ahead, it will be important to pursue nuanced approaches tailored to the countries and trading partners in question: the priorities and most effective strategies for greening trade will differ among North–South, North–North, and South–South trade arrangements and will depend on their relative size, economic circumstances, power relations and environmental performance. The environment–trade priorities for the US–China context, for instance, will be different to those for a UK–US trade deal, an EU–Indonesia deal, or for intra-African trade. A viable green trade agenda at the multilateral level will also demand a distinct approach that blends environmental ambition with inclusiveness in the context of the wider sustainable development and trade challenges facing developing countries.

This paper cautions against generalizations about the behaviour and interests of developing countries on environment and trade, which too often present a dichotomy between developed and developing economy interests. Like developed countries, many developing countries pursue environmental policies today out of awareness of the urgent need for action, self-interest, and demand from domestic constituencies. Most are keen to establish and bolster green sectors and international market share, to participate in and reap more value from international supply chains, and to avoid marginalization in a greener global economy. A growing number of developing countries are adopting environmental-driven practices for export-oriented sectors, even if not extended to the domestic economy, are concerned about environmental risks to their trading prospects, and are actively interested in promoting a green trade agenda.

That said, important North–South tensions remain in trade and on environment–trade issues as well. Here, context is vital: many developing countries argue that rules on trade have long been tilted against them and limit their policy space for economic development,⁷ and that developed countries have failed to address key development concerns. Developing countries have a strong interest in ensuring that environment-

governments can green trade by *upgrading trade policies and rules* that apply to measures at the border as well as to environmental actions ‘behind the border’. In addition to bolstered environmental and sustainable development chapters, this also calls for ensuring that the core provisions and commitments defined in trade agreements support environmental goals and incentivize sustainable consumption and production. In each of these areas, the report highlights the importance of consultation with trading partners, transparency, fairness, and approaches that respond to the wider sustainable development priorities of developing countries.

Third, looking beyond trade rules, other pathways to foster and strengthen *intergovernmental cooperation* that supports green trade are also required. Fourth, *stakeholder initiatives* can support sustainable trade, but also present challenges, and trade policy frameworks could better address these.

Whereas most reports on environment–trade interface provide policy, legal or economic analysis of specific environment challenges or country-specific viewpoints, the ambit of this paper is broader. It maps the state of play in the international trade and environment policy landscape, and highlights where openings exist to tackle the environmental challenges arising from trade and trade policy, and to harness them in support of environmental action.

This paper does not aim to provide an environmental assessment of any specific trade agreements (TAs) or provisions or which pathways would provide the greatest environmental impact. It recognizes the importance and relevance of an array of intersecting sustainable development challenges on the trade policy agenda – including issues of gender, poverty eradication, income inequality, health, indigenous peoples, human rights, labour rights and decent work, but integrating all of these critical aspects was beyond the scope of this paper. These deserve stronger attention in future research and on the policy agenda.

This paper has four parts. Part 1 provides a snapshot of

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