

Green Industrial Policy and Trade

A Tool-Box





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Green Industrial Policy and Trade: A Tool-Box

The Environment and Trade Hub of UN Environment and UNIDO, under the Partnership for Action on Green Economy (PAGE), cooperate to undertake Green Economy Industry and Trade Assessments (GITA) in various PAGE partner countries, in collaboration with respective national partner institutes. To inform and guide the work of national partners, UN Environment and UNIDO have developed a tool-box discussing trade-related green industrial policies.

The Green Industrial Policy and Trade Tool-box serves as a 'how to' guide for national partners in considering different trade-related policy options to promote green industrial development. The tool-box provides a concise but encompassing overview of trade-related green industry policy tools and presents a methodology to assess the application of these tools. It is targeted primarily at national policy makers and green economy professionals that want to support green industrial development to transition to an inclusive green economy.

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Summary for policy makers

The green industrial policy turn

Emerging global threats arising from ecological tipping points and inequitable distribution of resources call for a new economic model capable of delivering enhanced prosperity and growing social equity, within the contours of a finite and fragile planet. This requires a structural change towards an economy that is low carbon, efficient and clean in production but also inclusive in consumption and outcomes. Industrial policy refers to government actions to alter the structure of an economy, encouraging resources to move into sectors that are perceived as desirable for future development. As such, lessons from industrial policy in the past can provide important guidance for countries transitioning to an Inclusive Green Economy. A green industrial policy can therefore be defined as an industrial policy that is meant to trigger and facilitate structural changes as entailed, or required, both to respond to environmental conditions or situations, and to develop a green, circular economy. As such, green industrial policy can be an important instrument to facilitate structural change. This is the case particularly in situations where so-called ‘market failures’, or imperfect market conditions, prevent the structural changes required to shift to an Inclusive Green Economy.

Trade-related green industrial policy tools

This tool-box aims to guide policy makers in the use of green industrial policy instruments that can be employed to improve a country’s economic competitiveness while advancing environmental protection and social inclusiveness. In doing so, **this tool-box focuses on a sub-set of green industrial policies, namely trade policies that can be harnessed to promote green industries and green industrial policies that are of particular relevance from an international trade perspective.** This is important because, firstly, trade is a highly regulated area of international law and policy makers must ensure that their policy choices are aligned with their obligations in global, regional and bilateral frameworks.

Secondly, trade has increasingly been recognized by the international community as an important driving force for sustainable development. This tool-box therefore aims to provide policy makers with guidance on how to navigate the complex interface between trade and green industrial policy, while realizing the potential that trade has to offer for the global shift towards an Inclusive Green Economy.

How to use this tool-box

This tool-box is intended as a practical and policy-relevant manual, targeted at national policy makers concerned with industrial, trade or environmental policies, as well as negotiators of trade and investment agreements. It therefore aims to provide a ‘menu for choice’ of the trade-related green industrial policy tools available and clarify their structure and operation, while outlining their implications with regard to trade policy. In doing so, the tool-box refers to some of the most relevant examples, successful but also unsuccessful. It also points to more specific resources for those that want to explore a particular tool further.

This tool-box can be used in two main ways: firstly, it can be used as a stand-alone resource by decision-makers who want to consider a wide range of trade-related policy options to advance certain pre-set goals. Secondly, when a State is still in the process of exploring whether or not to implement a green industrial policy and no general or specific goals have been set, a broader strategic process is necessary. In this case, this tool-box can be used as a complement to UNIDO’s *Practitioner’s Guide to Strategic Green Industrial Policy*.

The policy tools discussed in this tool-box

Within the broad spectrum of green industrial policies, this tool-box focuses on trade-related policy options that are made up of two categories of policies: the first category includes typical trade policies, such as tariffs and other border measures or provisions in trade agreements. These can be

used to conduct green industrial policy or to secure policy space for domestic instruments that promote green industrial policy. The second category encompasses policy instruments, such as subsidies and other support schemes, standards and public procurement, which due to their influence on trade, are highly regulated in international trade law. This category also covers employment-related policies, because trade normally entails major structural adjustments which, together with the transitional dimension of the move to a green economy, call for adequate employment and social policies. These policy tools are presented in individual chapters. Each chapter discusses the policy rationales for using the tool, the main varieties of the tool and their implications, and some representative examples. A summary table places the tool within an overarching methodology to guide trade-related green industrial policy. Furthermore, each tool-chapter is accompanied by a list of carefully selected resources to go further in the understanding and implementation of the tool.

Chapter 2 discusses a variety of border measures that can be used by either importing or exporting countries as a tool of green industrial policy. These include tariff adjustments, carbon equalization measures, trade remedies and export restrictions. Tariffs adjustments, for example, may take the form of tariff increases or coordinated tariff reductions. The manual outlines a country's option to increase tariffs on certain goods, which may, in particular circumstances, help to shield infant green industries and realize a latent comparative advantage. However, the manual also draws attention to the complex considerations

operationalization of liberalizing environmental goods at international level and the different avenues chosen by States to implement this approach within their national tariff schedules.

Chapter 3 discusses a wide variety of support schemes, organised under two broad headings, so-called 'soft' and 'hard' green industrial policies. 'Soft' policies include investment in infrastructure, research and development, as well as the reduction or removal of distortive subsidies to brown economy sectors. The enactment of a conducive regulatory framework and innovation policies, such as green patent fast-tracking, are also vital to create an enabling environment. One form of specific, or 'hard' green industrial policies include various forms of targeted financial subsidies. The chapter focuses on two tools that are more specifically related to trade, namely the use of local content requirements and export-related support. The chapter surveys their wide use in practice and alerts policy makers to the diverging views that exist on the use of these policy tools. The chapter closes with a case study on the experience of South Africa that switched from a feed-in-tariff to a competitive bidding system for renewable energy generation. The case study illustrates the South African experience of promoting renewable energy capacity while, at the same time, advancing economic development through a criteria-based bidding system linked to local content requirements.

Chapter 4 discusses standards which are broadly understood in this manual to include technical regulations, voluntary standards and conformity assessment procedures. The chapter illustrates

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