

TIME FOR TRADE POLICY TO DO MORE FOR THE ENVIRONMENT

How COP26 in Glasgow can help with sustainability

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HOW COP26 IN GLASGOW CAN HELP WITH SUSTAINABILITY

WHY FOCUS ON TRADE AND SUSTAINABILITY?

Amar: One of the main criticisms levelled at trade from a sustainability perspective is that the gains from trade will be overstated if the environmental damage caused by production processes and trade are not properly counted. The Amazon is a good recent example. There are concerns that freeing up trade in beef between the EU and Mercosur will speed up deforestation in the Amazon. Because of its role as a carbon sink, the costs would be paid not just in the Amazon but by the whole planet.

WHAT OTHER TENSIONS ARE THERE BETWEEN TRADE AND TACKLING CLIMATE CHANGE?

Matthew: The interaction between trade and policies to reduce emissions springs to mind. The tension stems from the fact that some countries have much more ambitious policies than others. Those that are more ambitious worry that their efforts to cut emissions will simply cause industries to relocate to countries that are more relaxed about climate change.

Governments also worry that rules put in place to support free trade at a global level might limit their ability to meet domestic climate targets. For example, if a government introduces new regulations or subsidies to fight climate change, their intervention might be challenged as violating global trade agreements.

COULD FREE TRADE HELP TO ACHIEVE CLIMATE OBJECTIVES?

Amar: Yes, trade supports innovation and the diffusion of the fruits of that innovation, including the very technologies needed to promote sustainable development. Take new energy vehicles. if

EXEC SUMMARY

Increasing attention is being paid to how trade policy could be used to promote environmental sustainability. Issues such as carbon border taxes and trade in carbon offsets are sure to be on the table when the UK hosts climate change talks in Glasgow next November. COP26 will follow up on the 2015 Paris agreement on the mitigation of greenhouse gas emissions.

Matthew Bell, a director at Frontier Economics and former CEO of the UK Committee on Climate Change, discusses what's at stake with Amar Breckenridge, a senior associate at Frontier who specialises in international trade.

there are no trade barriers in the way, you'd expect them to spread around the world faster than would otherwise be the case. Trade also helps bring about economies of scale that are essential to reducing the costs of deploying new technologies. Think about the sharp drop in the cost of solar panels because there was a big global market for them. It's also worth pointing out that some of the worst environmental problems are caused by policies that distort trade. Subsidies linked to fishing and to fossil fuels are obvious examples.

HOW CAN THE TRADE WORLD DO BETTER, OR IS IT DOWN TO THE SUSTAINABILITY "CAMP"?

Matthew: Well, it certainly doesn't make sense to let the historic division between the two drag on. Trade negotiators and climate negotiators rarely meet, compare notes or discuss how decisions in one forum affect those in another.

The traditional focus of trade policy has been on growth. Other considerations have taken a back seat. That said, let's not forget that the treaty establishing the WTO highlights the importance of "the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment".

Amar: That's right. In fact, there are various provisions in trade law that either allow for the pursuit of public policy interests in a way that minimises distortions to trade, or carve out exemptions from core WTO rules for those purposes. But there's still a lot of thinking to be done on how to ensure, for example, that poorer countries can get proper access to innovative technologies. After all, they're a critical part of the sustainability equation.

Matthew: The main issue for sustainability is the lack of a developed and enforceable system of rules. Those exist, to some extent, in trade agreements. If you're breaking WTO rules, you're hauled before its dispute settlement body, and if you remain in violation you'll face retaliatory tariffs until you comply. It's crude, but it helps. There's no parallel procedure in, say, climate change. That's why there's growing discussion about carbon border adjustment mechanisms and how they can be used to discipline trade that's seen as running counter to climate objectives.

SO CAN TRADE BE USED AS AN INCENTIVE TO GET COUNTRIES TO DO MORE?

Matthew: If we accept that the priority is to make rules on things like climate and biodiversity more constraining, then I would hope that trade can be used to support that goal, at least in the interim as a second-best option.

Amar: There are already some initiatives that can help - product labelling, for example, or reporting requirements for multinationals. The idea is to use both carrot and stick: businesses stand to gain by emphasising their green credentials or risk damaging their reputation if they don't go along.

There's also now some appetite to use free trade area negotiations to try to encourage compliance with international environmental agreements. The EU has several trade deals that include such provisions. The idea here is carrot rather than stick: the EU offers trading partners enhanced access to its market in return

for sustainable policies. It remains to be seen how far this can work. Countries that are willing to accept these conditions are likely to be doing reasonably well on the environment anyway.

WHAT MIGHT THIS MEAN FOR THE UK?

Matthew: The UK has just announced one of the most ambitious emission reduction plans. It's aiming for a 68% cut from 1990 levels by 2030. Support for this goal will depend, among other things, on the public seeing the benefits. That includes benefits in terms of new jobs and growth linked to low-carbon industries. The government will be putting in place a range of measures to help low-carbon sectors and products: new agricultural payment schemes, support for electric vehicles, low-carbon energy procurement and many others. The government will need to make sure that trade agreements don't get in the way of its interventions in new domestic markets.

At the same time, the government will be nervous about any indication that industry is moving overseas because of the UK's climate ambitions. The UK may increasingly look to incorporate carbon border adjustments into trade agreements that it negotiates.

And finally, as the host of COP26 the UK should be looking to combine trade and climate by reinvigorating credible international trade in carbon offsets. This is low-hanging fruit. Offsets are how to start tackling emissions for the least cost. But offsets are not just about efficiency. They also address the question of equity that sits at the heart of much climate discussion. Offsets provide a way of transferring revenue around the world to the mutual benefit of all. That objective is currently hampered by a lack of credibility in the offsets that are being traded. The climate world could learn from trade negotiators how to agree credible mechanisms to underpin an effective global carbon market.

Amar: The UK will need to ensure that its trade policy is aligned with its ambitions in terms of green industrial policy. Take electrical vehicles for example. One of the big challenges will be to negotiate arrangements with major trading partners that make sure companies that are part of global value chains are not put off investing in the UK by worries about tariffs and rules of origin. The UK could work with the new Biden administration to secure a firmer global understanding on instruments like border tax adjustments to help countries push ahead and meet their emission reduction commitments.

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