



**Climate change and trade: what policies for environmental goods and services?
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The link between trade and the environment was recognized as early as in the 1970s and even earlier. Thus, article XX of the GATT 1947 allowed for general exceptions for certain trade restrictive measures which are 'necessary to protect human, animal or plant life or health' (para. b) and those 'relating to the conservation of exhaustible natural resources' (para. g).

While since that time a large number of policies have been adopted for the protection of the environment, developing countries became growingly concerned that such policies could become obstacles to trade and constitute, de facto, a new form of protectionism. Principle 12 of the UN Rio Declaration on Environment and Development (1992) stated in this regard:

States should cooperate to promote a supportive and open international economic system that would lead to economic growth and sustainable development in all countries, to better address the problems of environmental degradation. Trade policy measures for environmental purposes should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.

The relationship between trade and the environment was also addressed in the Agreement Establishing the World Trade Organization (WTO) in 1994, which stressed the need for 'the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment...'.

The 1994 Ministerial Decision on Trade and Environment –which established the WTO's Committee on Trade and Environment (CTE)- stated that

there should not be, nor need be, any policy contradiction between upholding and safeguarding an open, non-discriminatory and equitable multilateral trading system on the one hand, and acting for the protection of the environment, and the promotion of sustainable development on the other...

In 2001, the Doha Ministerial Declaration called for a reduction or, as appropriate, elimination of tariff and non-tariff barriers on environmental goods and services.

While the importance of protecting the environment in the context of trade policies is, as shown by these developments, firmly recognized, a key question is the extent to which trade disciplines aimed at protecting the environment can reach their intended or declared objectives and affect the trade interests and economic growth prospects of developing countries.

A number of trade-related initiatives are gaining momentum in some developed countries regarding environmental goods and services.

Notably, the European Union (EU) has designed a 'carbon border adjustment mechanism' (CBAM) to impose a tariff on the imports into the EU based on the level of carbon emissions

in the imported products. A simplified CBAM will be implemented by EU from 1st January 2023 while it will be fully in place in 2026.

This type of measures is a matter of concern as they may further disadvantage developing countries -including least developed countries- in international trade. In this regard it is to be noted that:¹

-According to the OECD (2020) carbon emissions in internationally traded goods and services account for only 27 per cent of total global carbon emissions.

-Based on UNCTAD's estimates, CBAM would reduce global carbon emissions by not more than 0.1%.

-Global carbon emissions in international trade are mainly attributable to seven industries,² many of them largely located in developed countries.

-Much of the manufacturing processes that produce high CO₂ emissions were shifted from developed to developing countries, which will suffer the most from the impact of CBAMs.

-The share of OECD countries in total CO₂ emissions embodied in global gross exports is 31%, while that of non-OECD countries (except China) is only 16%.

-Many developing countries will experience a loss in export competitiveness and a fall in real income, including in the Middle East and North Africa, if CBAMs were applied.

-Developing countries may lose tariff revenues for an estimated amount of USD 15 billion.

The CBAMs may, in brief, negatively impact the export performance of and the economic growth in developing countries without bringing about a significant reduction in CO₂ emissions.

In 2014, 14 countries (among which only two developing countries) started in the WTO the negotiation of an Environmental Goods Agreement. These negotiations were interrupted in 2016, namely because of divergences on the list of products to be considered as 'environmental goods.' The revival of negotiations on the matter is now being promoted in the context of wider approaches towards a 'green economy'.

How 'environmental goods' are defined will remain one of the key issues to be addressed if such negotiations take speed. The OECD has developed a Combined List of Environmental Goods (CLEG) of 268 products (at HS six-digit level). If this list were taken as the basis for an agreement, a number of developed countries may benefit from increased exports, as they are their main world producers while most developing countries are net importers of such products.

In the view of the proponents, new negotiations on trade and environment would support a level playing field in international trade and contribute to address environmental concerns. However, as noticed, the contribution of new trade disciplines may not be substantial and, in addition, they may negatively affect the development prospects of developing countries.

These countries are among the most affected by climate change and, hence, they have a major interest in international action to address it. However, the intensification of environmental threats faced by developing countries is not of their making, and advancing an agenda -with no evidence that it would lead to reduced emissions- is likely to just disadvantage the

¹ The following is substantially based on UNCTAD's Trade and Development Report 2021, available at https://unctad.org/system/files/official-document/tdr2021overview_en.pdf.

² Mining and extraction of energy and related products; textiles, wearing apparel, leather and related products; chemicals and nonmetallic mineral products; basic metals and fabricated metal products; computers, electronic and electrical equipment; machinery and equipment; and motor vehicles, trailers and semi-trailers.

developing world which has the least responsibility historically for today's climate-related damages.

Given this history, as well as the tight external constraints imposed on their efforts to mobilize resources, developing countries cannot be expected to either successfully mitigate climate change or adapt to climate change, without significant financial and technological support. The financial support has been promised time and again but not yet adequately delivered. Access to environmentally sound technologies is also critical but the obligations under the UN Framework Convention on Climate Change have not been complied with either, and effective mechanisms to that end are still missing. In this regard, it is worth recalling the India's submission to the CTE in 1996 proposing an amendment to the TRIPS Agreement to enhance access to such technologies.

The principle of common but differentiated responsibilities is intended to ensure that advanced countries provide the support, commensurate with the economic benefits and growth they have reaped in the past two centuries of their uninterrupted green-house gas emissions into the atmosphere. The best vehicle for mobilizing, coordinating, and ensuring that support remains a multilateral system that recognizes such a principle and incorporates the development dimension in any new initiative concerning trade.

With a shrinking timeline for stabilizing the climate problem and a global intent for advancing the achievement of the SDGs, all countries must find ways to both promote and discipline trade in line with their Paris Agreement commitments as well as the referred to principle of common but differentiated responsibilities.

The South Centre's Trade for Development Programme has been assessing the policy implications that the initiatives on trade and environmental sustainability will have for the Global South. In this regard, UNCTAD's Trade and Development Report of 2021 also proposes a way forward on the trade and environment agenda which can assist developing countries in making progress on their climate goals while also facilitating green technology transfers.