



# Making Trade Work for Climate: Options for Policymakers

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The Paris Agreement requires its parties to make plans to fight climate change and enhance their ambitions over time. The ultimate goal is to limit the global average temperature increase to well below 2°C and pursue efforts to stay below 1.5°C. To achieve this, improved energy efficiency, a substantial scale-up in the production of renewable energy, and enhanced access to clean energy technologies are necessary. In a globalised world, this vision cannot be realised without including trade policy in the national and international climate agenda.

## A Crucial Role for the Trade Regime

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The international trade system is regulated by several types of agreements, including those covered by the World Trade Organization (WTO), plurilateral agreements adopted within and outside the WTO framework, and regional trade agreements (RTAs). They all contain a range of provisions that allow promoting sustainable and climate-friendly practices and technologies. However, they also differ substantially in certain aspects. For instance, the North-American Free Trade Agreement (NAFTA) includes a side-agreement for environmental issues, while the WTO only refers to sustainable development in its preamble and the environment falls under a general exception clause.

In light of the twin challenge of advancing global climate action while ensuring barrier-free trade, the trade regime should support climate policies more substantially. Conversely, climate action should also take trade effects into account. Some national climate policy measures, for example local content clauses in renewable energy support programmes, risk colliding with international trade rules. Several climate change and clean energy measures have already become the subject of WTO disputes. The fate of such climate actions could be left to the WTO dispute settlement system, but this could result in a situation in which important climate policy decisions are determined by WTO judges. It is therefore essential that the trade regime provides long-term legal clarity.

**Through a literature review and 26 expert interviews, we examined 22 options that could strengthen the relationship between the climate and trade regimes. For each of them, the assessment of the short-term political feasibility is presented with a traffic-light system (Figure 1). Based on this analysis, we identify six actions that can be pursued in the short to medium term. These actions can also pave the way for longer-term initiatives to improve legal guidance, such as WTO reform.**



Figure 1. Options and their Potential Feasibility in the Short Term



# Six Ways to Support the Paris Agreement in the Near Term

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Trade policy can immediately support the implementation of NDCs under the Paris Agreement. Here we list six ways forward, all of which relate to already existing activities, forums and approaches.

1

## Leverage regional trade agreements (RTAs)

why?

RTAs allow for bargaining and opportunities for policy experimentation at a relatively small scale with like-minded countries. This format could allow trade partners to align standards and regulations with a view to support the Paris Agreement.

how?

Such alignment can be achieved by including climate-related provisions in new RTAs (e.g. EU's free trade agreements with Japan, Singapore, and Vietnam). In addition, countries can review and renegotiate existing RTAs for this purpose (e.g. the renegotiations and updates of the EU-Mexico free trade agreement).

2

## Engage in plurilateral efforts with like-minded WTO Members

why?

Plurilateral trade talks can avoid delays in decision-making caused by the large number of WTO Members, and create room for expedited climate action, while creating scope to eventually extend the benefits and concessions to all WTO Members on a most-favoured-nation basis after a critical mass is reached.

how?

Policy-makers, for instance in the EU and China, could revive the stalled negotiations on the Environmental Goods Agreement (EGA). In particular, they should focus on defining environmental goods and identifying the common interest of the parties involved. New plurilateral agreements or cooperative engagement on specific areas, such as border carbon adjustments and fossil fuel subsidy reform, could also be explored (see below).

3

## Use WTO and UNFCCC forums more intensively

why?

A more regular exchange of information between the UNFCCC and the WTO, both among secretariat staff and government officials, reduces tension and fosters more cooperative approaches towards the formulation of climate policies in line with the trade regime. This also helps to apply and interpret laws and promote integration of climate concerns in trade matters and could pave the way for greater legal clarity in the long term.

how?

Existing institutional exchange and coordination between forums such as the WTO Committee on Trade and Environment (CTE) and the UNFCCC's 'Improved Forum on the Impact of the Implementation of the Response Measures' should be intensified. This could be done by systematically addressing climate change through the CTE, by carrying out studies on the impacts of trade-related climate policies through the Improved Forum, and by regular meetings between the WTO and UNFCCC secretariats.

4

## Include climate-related issues in the WTO Trade Policy Review Mechanism (TPRM) on a voluntary basis

why?

The TPRM could enhance transparency regarding climate-related trade measures, which helps building trust among WTO Members. In particular, regular reporting under the TPRM could add to the processes that capture whether or not a country's actions are in line with the Paris Agreement. This may help reduce the number of WTO challenges.

how?

WTO Members could voluntarily include a gradually increasing amount of information on their climate-related trade measures, and *vice versa*. Members could raise climate-related queries during trade policy reviews.

5

## Advance border carbon adjustments (BCAs) in a coalition of like-minded countries

why?

Countries looking to lead on climate change tend to face political pressure from domestic constituencies when climate action is uneven across trading partners. BCAs can help level the playing field and prevent emissions leakage. They could also exert leverage on laggards to strengthen their climate ambition.

how?

Though BCAs have been controversial in the past, by working together on the design and implementation of BCAs, like-minded countries could ensure that this policy does not turn into a disguised form of protectionism. They could agree on accepted features of a BCA, and reciprocally pledge not to contest a BCA imposed by one participating country against another. Over time, the group of countries could expand, becoming a catalyst for broader and eventually multilateral action.

6

## Promote fossil fuel subsidy reform through a group of WTO Members

why?

Although fossil fuel subsidies drive greenhouse gas emissions, divert public money from other development priorities, and may have an impact on international trade, the WTO's disciplines on subsidies have failed to address them. Putting fossil fuel subsidies on the international trade agenda could show that they are about trade, and could build support for the development of rules to phase them out in the longer run.

how?

Fossil fuel subsidies are already addressed by a small group of WTO Members in the context of trade policy reviews, and a group of 12 countries adopted a ministerial statement in 2017 calling on the WTO to discipline them. A way forward would be to gradually expand the group of countries raising fossil fuel subsidies in the WTO to include Members responsible for sizeable subsidies (such as China, the EU, India and the United States). Moreover, Members can help increase transparency by voluntary notification of fossil fuel subsidies, and continuing to include such subsidies in trade policy reviews.

Our call for prioritising some options in the short term in light of the current political climate goes hand-in-hand with a call to keep all options (including those in Figure 1) on the table. In the end, improving the interplay between the trade and climate regimes will be a dynamic process: starting with the low-hanging fruit of options that are feasible in the short term can make other options more feasible in the medium and longer term.

This brief is part of the Climate Strategies project, “Making the International Trade System Work for Climate Change”, funded by the KR Foundation. A complete overview and discussion of the options outlined in this brief can be found in: Das, Kasturi, Harro van Asselt, Susanne Droege and Michael Mehling (2018), Making the International Trade System Work for Climate Change: Assessing the Option (London: Climate Strategies).

All papers and reports from the entire project are available at:  
<http://climatestrategies.org/projects/making-the-international-trading-system-work-for-climate-change/>

Authors: Kasturi Das, Harro van Asselt, Susanne Droege, and Michael Mehling.  
Editor: Claudia Delpero, Project Manager: Alexandra Carr.

For more information visit:

[climatestrategies.org](http://climatestrategies.org)

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