WORLD TRADE ORGANIZATION

INF/TE/SSD/R/16

17 April 2023

(23-2739)

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Trade and Environmental Sustainability Structured Discussions

Original: English

TRADE AND ENVIRONMENTAL SUSTAINABILITY STRUCTURED DISCUSSIONS

INFORMAL WORKING GROUP MEETINGS
HELD ON 16-17 MARCH 2023

1 Remarks by the TESSD Coordinators

1.1. The Coordinators, Canada and Costa Rica, outlined the way forward recalling the priorities arising from the High-Level Stocktaking Event held on 2 December 2022 and the Statement by TESSD Co-Convenors. They also reminded TESSD co-sponsors that they could consider sharing their statements to further enhance transparency.

2 Working Group on Trade-related Climate Measures (TRCM) – 16 March (a.m.)

Review of carbon measurement standards and measures intended to lead to a reduction in carbon emissions in the iron and steel sector

2.1. The Secretariat briefed on the event "Trade Forum for Decarbonization Standards" that took place on 9 March 2023, which aimed to promote coherence and transparency in the steel sector. The event included participation by the private sector, industry associations, think tanks, and other international organizations to discuss the connections between trade and decarbonization standards in the steel sector. The event aimed to foster a more coherent and transparent approach to carbon measurement based on international standards. The Secretariat also presented on decarbonization standards in the iron and steel sector based on the Trade and Climate Change Information brief no. 7.[1] The presentation highlighted the challenges of proliferation and fragmentation of decarbonization standards on climate and trade issues, as well as the importance of promoting coherence and bringing developing country perspectives into the decarbonization discussions.

2.2. As part of the discussions, Members reacted to the presentations and responded to the following questions:

- What are the trade implications of the trend towards proliferation and fragmentation of carbon measurement standards in the iron and steel sector?
- In which ways can carbon measurement standards be used to support the development of trade-related measures aimed at decarbonizing the iron and steel sector?
- How can Members best cooperate with the private sector and among each other, including at the WTO, to promote coherence and to maximize both climate and trade benefits?
- What are specific challenges facing developing countries? How can these be addressed: (i) in the standards development stage; and (ii) in the implementation stage when measuring process and product emissions?

2.3. Several Members took the floor to discuss implications of the proliferation of carbon measures, the importance of cooperation, and challenges faced by developing countries. One Member advocated for Mutual Recognition Agreements (MRAs) on decarbonization standards at a multilateral level, while another noted that establishing a common understanding of low carbon steel products should account for different levels of development, particularly since access to climate finance was

[1] https://www.wto.org/english/tratop_e/envir_e/trade-climate-change_info_brief_no7_e.pdf.

constrained, and also stressed the importance of including developing country perspectives. Members also shared their experience on cross-cutting inter-ministerial collaboration at the national level, noting that a sound multilateral environment was crucial for decarbonizing the steel sector, and pointed to significant investments planned to promote green sectors.

2.4. A number of Members emphasized the need for harmonization and a common approach to reduce the risk of creating additional barriers to trade, underlined the positive role of WTO in supporting the exchange of methodologies for calculating embedded emissions and as a forum for dialogue and promoting coherence on carbon standards, and suggested that the Industrial Deep Decarbonization Initiative (IDDI), the International Energy Agency (IEA), the International Standards Organization (ISO), and the Organisation for Economic Co-operation and Development (OECD) could be helpful forums. Certain Members also stressed the importance of collaboration to reduce duplication of work across different organizations, and emphasized the need for clear carbon accounting methodologies as well as interoperability of standards.

Exchange on the development and implementation process of trade-related climate measures

2.5. The WTO Secretariat briefed Members on the TBT Thematic Session on regulatory cooperation focusing on the topic of climate change, which took place on 7 March 2023. The session highlighted that regulatory measures were increasingly used in Members' efforts to tackle climate change, but such measures could create trade barriers if not designed and implemented with reference to the TBT Agreement's principles and international standards. The session also highlighted the importance of maintaining global regulatory cooperation, increasing harmonization of technical requirements based on international standards, and promoting mutual recognition where possible to reduce duplication and divergences in regulatory measures. It was noted that these efforts could support increased trade in products and technologies needed to address climate change. The key role of the TBT Committee in achieving these goals, taking into account the needs of MSMEs and ensuring the effective participation of developing countries in the standard-setting process, was noted.

2.6. As part of the discussions, Members reacted to the briefing and responded to the following questions:

- What processes (e.g. consultations, data gathering exercises) and principles do you follow in the development and implementation of trade-related climate measures?
- Do members consider a range of policy options to address specific problems? What mechanisms exist for evaluating the potential effects and impacts of those policy options? How do you balance climate and trade considerations in this process?
- What processes do you have in place to enhance transparency in the regulatory process?
- Following the implementation of a policy, what processes do you have to evaluate the impacts and effectiveness of a policy in meeting its stated objectives?

2.7. Several WTO Members took the floor to share their experiences regarding processes and principles in the development of TrCMs. Many Members noted that public reporting and stakeholder consultation were key principles to their national regulatory approaches. Singapore noted that it had launched the Singapore Green Plan 2030, which included TrCMs, and which were developed based on consultations with industry and citizen stakeholder groups. Some Members noted that they had a transparent regulatory system that emphasized interagency processes, evidence-based decision-making, public consultations, and impact assessments, while another Member mentioned that it had extensive processes for developing, promulgating, and implementing new regulations that were governed by law, including public consultation and transparent rule-making procedures. One Member also noted that the regulatory approach taken for TrCMs was the same as for other measures.

2.8. Some Members highlighted that they had established a partnership with industries, including the processing, maritime, construction, and property industries, to reach climate targets. Members also shared TrCMs in the pipeline such as carbon pricing, voluntary and mandatory product standards, labelling and procurement measures, and a potential carbon border adjustment mechanism. One Member emphasized that administrative burdens should not create barriers to trade

and that sufficient time should be provided to implement the shift, and encouraged Members to engage plurilaterally and multilaterally.

2.9. Two stakeholders took the floor to provide comments on the working group on TrCM (IISD, TESS) TESS stated that the sectoral focus on the iron and steel sector highlighted the challenges facing companies, especially MSMEs in developing regions to comply with carbon accounting and measurement requirements, including the lack of available data, poor transparency of differing requirements among trading partners, limited participation of developing country governments and businesses, financing, and lack of affordable access to relevant technologies. It noted that the WTO could play an important role in fostering inclusive and effective international cooperation and coordination. IISD informed members about its upcoming reports on voluntary standards, successful deforestation measures implemented by developing country governments, and policy briefs on development and implementation of border carbon adjustment measures.

3 Working Group on Subsidies – 16 March (p.m.)

Environmental effects and transparency

3.1. The Food and Agriculture Organization (FAO) presented on the environmental effects of agricultural subsidies. FAO noted that it was important to differentiate between different types of support and subsidies, as not all types of support could be considered subsidies and not all subsidies were recorded in the metrics of support. It further noted the necessity of considering the impacts of harmful subsidies and taking account of three dimensions: the condition of the country, instruments such as payments to inputs, as well as the products themselves.

3.2. Paraguay made a presentation on good agricultural practices and environmental programmes under paragraph 12 of Annex 2 of the Agreement on Agriculture. The presentation assessed all questions raised in the Committee on Agriculture for environmental programmes included in the last 10 years to identify concerns raised by Members regarding notified programmes. Further, Paraguay proposed to elaborate a questionnaire similar to the Dialogue on Plastics Pollution (DPP), in which Members could provide more information on their measures, their environmental objectives, identify trade-offs between environmental objectives, and provide more information on the results of environmental measures.

3.3. As part of the discussions, Members reacted to the presentations and responded to the following questions:

- How can the environmental effects and trade impacts of agricultural subsidies be identified?
- What are information gaps to better understand these impacts, and how could transparency and data availability on agricultural subsidies be enhanced?

3.4. Several Members discussed the issue of identifying agricultural subsidies and their impact on the environment. Members acknowledged the complexities of agricultural subsidies and their effects on the environment, underlined the importance of moving to less distorting and environmentally harmful forms of subsidies, noted that removal of such subsidies may not have the intended effect, and suggested leveraging the expertise and outputs of several international organizations such as FAO, the World Bank, the OECD, and the International Food Policy Research Institute (IFPRI) which were working on this issue. Certain Members noted the impact of subsidies on the food system and stated that some kinds of support for farmers were inefficient, but also emphasized the need to account for poverty alleviation and food security when discussing the issue. A Member stated that agricultural subsidy policies should take into account the impact on production, trade, and the environment, while another Member noted that environmental effects and trade impacts were different concepts and needed to be treated separately.

3.5. Regarding the issue of data availability and transparency to identify information gaps, one Member emphasized the importance of quantifying environmental effects to evaluate the benefits of climate-smart agricultural practices, while another Member called for better analytical modelling to capture the impacts of different types of subsidies. A Member highlighted the need to provide specific information including Green Box subsidies at the WTO.

Subsidy design

3.6. Brazil and the European Union presented their experiences in promoting environmental sustainability in agriculture. Brazil discussed its use of subsidies to support sustainable agriculture initiatives, including the National Alcohol Program, the Agriculture Climate Risk Zoning policy, and the Low Carbon Emission Agricultural Plan. These policies had resulted in increased productivity yield, negative correlation between land use, land-use change, and forestry (LULUCF) and agriculture, and reduced subsidies in the long term. The European Union focused on the environmental sustainability of its Common Agricultural Policy, which had shifted towards protecting the climate while reforming the policy. The European Union had reduced greenhouse gas emissions, decreased the use and risk of chemical pesticides and sales of antimicrobial agents, and increased organic farming.

3.7. As part of the discussions, Members reacted to the presentations and responded to the following questions:

- How do you consider possible environmental effects and trade impacts in the design of agricultural subsidies?
- What kind of agricultural subsidies can be beneficial to the environment?
- How do you balance environmental and trade considerations?

3.8. Several Members took the floor to discuss the consideration of environmental and trade effects in subsidy design based on the above-mentioned questions. One Member stated that each Member should identify and evaluate environmentally harmful subsidies and reorient them towards environmentally positive ones. It also referred to the OECD's PINE database as a tool to identify environmentally positive subsidies. Relatedly, another Member stated that presentations from Members about their country-specific programmes could help understand the unique challenges they faced and tailor solutions to their specific needs. Another Member noted that it systematically evaluated the environmental impacts of agricultural policy measures, including via quantitative models. It also noted that agricultural subsidies could be beneficial to the environment, as they could help provide public goods such as biodiversity preservation and greenhouse gas reduction. The United Kingdom stated that it was undergoing significant reforms of agricultural policy and spending to align the sector with national objectives for improving the natural environment and meeting the national target of net zero greenhouse gas emissions by 2050. The reformed approach aimed to encourage farmers and land managers to provide environmental goods and services such as habitat restoration, improved water quality, natural flood management, and woodland creation.

3.9. Two stakeholders took the floor to provide comments on the working group on subsidies (IISD, TESS). TESS stated that sustainability dimension of subsidies could complement the ongoing negotiations in the special session of the Committee on Agriculture, noted that defining what constitutes environmentally harmful subsidies would be challenging, and suggested identifying unequivocally environmentally harmful practices and prioritizing action on any form of subsidies supporting them.

4 Working Group on Environmental Goods and Services – 17 March (a.m.)

Services

4.1. The WTO Secretariat presented on renewable energy services and related services that supported the sector. It explained the challenges in defining renewable energy services using the Services Sectoral Classification List, and illustrated the different types of services that were supporting the renewable energy supply chain. It also pointed to the limited data on renewable energy services trade. As governments implemented various policies to encourage renewable energy, horizontal measures relating to investment, land use, professional licensing or movement of natural persons could act as barriers to trade in renewable energy services.

4.2. As part of the discussions, Members reacted to the presentations and responded to the following questions:

- What services are important for the development, installation and operation of renewable energy projects? How do these services either (i) contribute directly to climate change goals or (ii) support environmental goods in achieving climate goals?

- What role does trade in these services play to develop the renewable energy sector? What are the main barriers to trade in these services?

- What are specific examples of such services applying to the solar energy sector?

4.3. Several Members took the floor to discuss what services were important for renewable energy projects and related barriers to trade in this sector. Several developing Members noted that renewable energy development cannot be separated from services support, such as identification, site evaluation, engineering, construction, operation, and maintenance. Another Member also listed architectural, certification, and urban planning important in the renewable energy context. Other Members also highlighted the importance of various professional services for renewable energy deployment, such as technical testing, and financial and insurance services. One Member noted that environmentally related services should include installation and assembly work, recycling, lending, and leasing.

4.4. Members also discussed the role of trade in services in developing the renewable energy sector and touched on related trade barriers. Some Members stated that trade barriers hindered the efficient deployment of renewable energy technologies, and called for the examination of bottlenecks in regulations and technical standards. For instance, some Members noted that foreign architects and engineers faced strict licensing and certification requirements that could affect solar energy service providers. Other barriers mentioned, *inter alia*, include nationality requirements, limitation of stay of foreign service providers, limited recognition of third-country diplomas, investment screening procedures, economic needs tests, restrictions on foreign equity or types of commercial presence, and discrimination regarding registration, licensing, procurement policies and subsidies. It was also suggested that the work of OECD on the Services Trade Restrictiveness Index (STRI) would be useful in identifying relevant trade barriers.

Goods

4.5. LONGi Green Energy Technology Co. Ltd. shared its activities in the solar energy sector, highlighting trade-related challenges and opportunities. The United Kingdom presented how value chain analysis could be useful in building an evidence base on the role of environmental goods and services and related policies in promoting renewables, since it provided a unifying conceptual framework for understanding a wide array of policy issues relating to environmental goods and services. Further, the United Kingdom also proposed that the TESSD facilitators, with support from the WTO Secretariat, build and maintain a living summary document.

4.6. As part of the discussions, Members reacted to the presentations and responded to the following questions:

- What are key goods to allow solar energy to achieve climate change goals?

- What are the main bottlenecks in supply chains or barriers to the dissemination of these goods?

4.7. Several WTO Members took the floor to discuss key goods for solar. Members listed solar energy systems, energy storage batteries, solar-powered appliances and equipment, such as solar water heaters and solar power electric generating, solar panels, silicon, silicon wafers, solar cells, and PV modules as key goods of solar. Singapore stated that the APEC List of Environmental Goods and the Singapore-Australia Green Economy Agreement contain specific examples of these goods. A Member identified polysilicon, smart-grid technologies, and technologies for large quantum storage as critical raw materials in the renewable energy industry, while another Member noted the importance of value chain approach in identifying systematically related goods and services, stating that in many cases, ex-outs could be considered since HS nomenclature often did not differentiate between environmental goods and other goods.

4.8. Members also took the floor to discuss bottlenecks and barriers to dissemination environmental goods. Some Members highlighted the need to expand the proportion of renewable energy

generation, and highlighted trade barriers. A Member stated that it had found the value chain approach, suggested by the United Kingdom, useful for identifying related goods and services. One developing Member emphasized the need for technical assistance and capacity building for developing countries. Members also identified technical regulation and non-trade related barriers as challenges to solar deployment, along with dependence on critical minerals, bottlenecks and regulatory challenges in the supply chain, and lack of infrastructure and know-how to support distribution. Members highlighted the importance of making research useful for Members with less technical capabilities, and mapping value chains to identify decision points and barriers.

Developing country perspectives

4.9. The International Solar Alliance (ISA) presented on promoting access to and deployment of solar energy technology in developing countries. ISA briefed Members about its programmes and three strategic priority areas: advocacy and analytics, capacity building, and project implementation. It further noted that it was organizing a Global Startup Challenge to attract entrepreneurs from the African region, with the first leg of the challenge being launched during the UNFCCC 27th Conference of Parties.

4.10. As part of the discussions, Members reacted to the presentations and responded to the following questions:

- How can trade in goods and services help developing countries with access to and deployment of solar energy technology?
- What are the challenges and needs of developing countries and LDCs to use trade to develop the solar energy sector?

4.11. Some Members noted that certain developing countries not only wanted to import green technologies but also become producers, and that trade in environmental goods and services allowed countries to access technologies, bring investments, and speed up skill training through the movement of labour. Members also noted that developing countries faced challenges such as reduced access to expertise, and that trade in services could help these countries access experts, and local communities could benefit from knowledge transfer.

4.12. Several Members took the floor to exchange on the opportunities and challenges for developing countries regarding the access to and deployment of solar energy technology. Members noted the importance of transitioning towards green energy for developing countries and noted that trade could offer solutions to challenges such as supporting the deployment of solar energy technology, enabling access to specialist service providers, and transferring knowledge. A Member highlighted that challenges of weak infrastructure, poor financing conditions, insufficient human capacity, and trade barriers, led to higher costs and delayed deployment of solar products. Some Members also noted that while the solar industry in most parts of the world was dependent on imports, some developing countries continued to implement trade barriers and restrictions.

4.13. Three stakeholders took the floor to provide comments on the working group on subsidies (IISD, TESS, UNCTAD). IISD stated that its report titled "How Can Trade Policy Maximize Benefits from Clean Energy Investment?" analyzed trade policy choices that developing countries could make to promote the use of renewable energy. According to IISD, the report highlighted that reducing trade barriers in renewable energy components would decrease project costs, increase deployment of renewable energy, and emphasized the role of renewable energy installations in climate change adaptation efforts. TESS discussed the importance of building an evidence-based approach to environmental goods and services using value chain analysis. It supported the United Kingdom's proposed methodology and noted that the focus should be beyond tariff barriers, to incorporate a range of other aspects including services and NTM at different stages of the value chain.

5 Working Group on Circular Economy – Circularity – 17 March (p.m.)

5.1. The OECD presented a report on trade policies to promote the circular economy, focusing on lithium-ion batteries, while the National Board of Trade Sweden – Kommerskollegium presented a study on trade rules for a circular economy regarding used lithium-ion batteries. The WTO Secretariat reported on the mapping of measures related to the circular economy in the WTO, with a focus on

measures relating to batteries. Glencore and Contemporary Amperex Technology Co. Limited (CATL) also presented on their activities regarding circularity of batteries and trade related challenges and opportunities. Closing the Loop presented on trade-related challenges in developing countries regarding battery recycling.

5.2. Members discussed the role that trade and trade policies played in national strategies and policies to promote circularity in batteries. Some Members stated that trade played a key role in creating opportunities for battery recycling, and a reasonable trade policy could promote the circular economy of lithium batteries by reducing the pressure on resources and the environment. A Member emphasized the need for focusing on upstream sectors like design for better traceability of battery components. The European Union shared information on its December 2022 legislation that aimed to make all batteries placed on the EU market more sustainable, circular, and safe. The new regulation brought forward both the EU's circular economy and zero pollution ambitions by making batteries sustainable throughout their entire lifecycle – from the sourcing of materials to their collection, recycling, and repurposing. Switzerland noted that it had a regulation on batteries, the Chemicals Risk Reduction Ordinance (ChemRRV), which contained provisions on the recycling of traction batteries.

5.3. Members also discussed the role that WTO could play to support in coordinating technical regulations, monitoring trade policies, improving the recycling capacity of developing countries, and compiling a wish list to bring together trade, environment, and regulatory communities in TESSD. Some Members noted that trade policies could either facilitate or hinder the circular economy, depending on regulations and tariffs, by influencing the movement of used batteries across borders, the availability of second-life applications, and the development of recycling infrastructure. One Member highlighted the need for harmonized definitions, standards, and regulations to promote circular value chains. Some Members cautioned that trade barriers and export restrictions could decrease incentives for recycling or refurbishment and lead to illegal trade flows. Members also stated that trade could play a vital role in creating opportunities for transparency and traceability, recycling and reusing batteries.

5.4. Members further discussed tools and collaborative actions to support developing and LDC Members in addressing challenges along the lifecycle of batteries. These Member pointed out that the circular value chain in the battery sector involved coordination of technical regulations, implementation of trade policies, and enhancing recycling capacity of developing members. To address concerns raised by enterprises, one Member suggested to collaborate with other international and regional organizations. To ensure the continued use and recycling of batteries, a Member stated that transparency and standardization in product design were necessary. Members emphasized that collaborative action was required to support developing and LDC Members in addressing challenges along the lifecycle of batteries.

5.5. Two stakeholders took the floor to provide comments on this working group (TESS, World Economic Forum). TESS noted that the discussions on circular economy should continue to focus on policies, particularly trade-related circular economy policies, and identify possible approaches to address challenges faced, with a focus on best practices and lessons from current experiences. According to TESS, this approach would inform future work on best practices, voluntary actions, and partnerships relevant to the design and implementation of trade-related circular economy policies and measures as envisaged in the TESSD ministerial statement. The World Economic Forum (WEF) suggested that trusted trader schemes could support trade-related efforts for a circular economy.