

WTO TRADE AND ENVIRONMENTAL SUSTAINABILITY STRUCTURED DISCUSSIONS

WORKING GROUP ON TRADE-RELATED CLIMATE MEASURES HELD ON 17 MAY 2022 (15:00-18:00)

Summary of discussions¹

1 Introductory remarks by the facilitators

1.1. The facilitators, Göksu Tulumen of Türkiye and Jean-Marie Meraldi of Switzerland, recalled that TESSD co-sponsors had agreed to launch dedicated discussions on how trade-related climate measures and policies could best contribute to climate and environmental goals and commitments while being consistent with WTO rules and principles. Based on the TESSD Work Plan for 2022, the working group on trade-related climate measures was guided by three questions relating to: (i) what trade-related climate measures and policies Members were pursuing and their trade implications; (ii) identifying best practices in the development of trade-related climate measures and policies to maximize climate and environmental benefits while also maximizing trade benefits; and (iii) challenges facing MSMEs globally and developing countries with regard to design and use of trade-related climate measures and policies, and how these could be addressed. The facilitators also recalled the substantive engagements amongst Members at the previous TESSD meeting on 31 March 2022.

2 Presentation by the World Bank

2.1. The representative of the World Bank made a presentation titled "Measuring and comparing carbon pricing and the pricing of embodied and transport emissions". He explained that there were several ways to price carbon. These included implicit carbon pricing like fuel and commodity taxes or subsidies, and traceable performance standards, as well as explicit carbon pricing such as carbon taxes, emissions trading schemes (ETS), and fees and rebates. These carbon pricing designs could accommodate different country priorities and industrial policies. It was noted that countries which significantly priced carbon could successfully reduce carbon intensity, and that some developing countries had carbon prices not much lower than developed countries with explicit carbon pricing. Pricing the carbon content of production or transport did not necessarily require a global measurement, reporting, and verification (MRV) system, as default values could be used with rebates when lower emissions were proven through sustainability certificates. Similar approaches for measuring carbon content could be applied in steel, maritime, aviation and timber sectors. Regarding the use of carbon pricing, it was observed that the majority of countries, particularly developing countries, were not pricing carbon explicitly through carbon taxes or ETS but rather implicitly through fuel, commodity taxes and subsidies, which might need to be taken into account for border carbon adjustment measures.

3 Exchange of views by Members

3.1. A Member stated the importance of discussing basic concepts for trade-related environmental measures such as "carbon leakage" and "border adjustment" at a time when Members were making voluntary efforts to reduce greenhouse gas (GHG) emissions under the Paris Agreement. It emphasized that the WTO should be the forum where WTO Members ensured trade-related climate

¹ This summary, prepared and circulated under the facilitators' responsibility, is being shared with a view to providing delegations with a record of the discussions and assisting them in reporting back to their capitals. It provides a non-exhaustive, illustrative review of the issues addressed by Members at the meeting.

measures' conformity with WTO trade rules. Another Member suggested to explore discussions on how to enhance cooperation in the design and implementation of environmental and climate measures, as well as basic guiding principles for the design of trade-related environmental and climate measures, including on whether to draw on existing multilateral environmental agreements.

3.2. A Member stated that it was important to examine implicit and explicit carbon pricing policies that countries implemented under different conditions. It noted that in the design process of trade-related environmental measures, including for border carbon adjustments (BCAs), it was necessary to account for climate policies and efforts of countries in combatting climate change within the framework of their national conditions, development levels, access to finance and their common but differentiated responsibilities (CBDR). It stressed that unilateral measures, which directly affected international trade and competitiveness, would be detrimental to the development processes of developing countries and LDCs. Another Member noted that it was a prerequisite for BCA measures to be consistent with WTO rules.

3.3. On carbon leakage, a Member stated that carbon taxes should neither increase distortions in competition nor lead to unnecessary administrative and regulatory costs or trade barriers. A non-discriminatory design of trade-related climate measures was important to ensure WTO compatibility and such measures should aim to reduce global emissions. Another Member noted that TESSD should explore ways to pursue trade facilitation to reduce emissions and environmental impacts and accelerate progress towards a net-zero future.

3.4. Two Members stated that it was important to ensure that the CBDRs and nationally determined contributions (NDCs) were accounted for in the ongoing discussions. Another Member noted that the border tax adjustment should be discussed in a broader sense since it may be considered as a technical regulation or standards covered under the TBT Agreement, and Article III.4 of the GATT 1994. On measures for the future sustainability of agriculture, the same Member suggested halting degradation of land and natural resources while reducing food insecurity, minimizing the impact of agriculture on climate change, and integrating conservation of biodiversity.

3.5. The United States provided an overview on their discussion paper on climate change and circular economy (INF/TE/SSD/W/19), which reflected its interest in discussing both the measurement/tracing of emissions in trade as well as policies to address emissions in trade and incentivize decarbonization, including whether border adjustments and carbon clubs could be effective in achieving environmental objectives. According to the United States, addressing climate change was not a siloed endeavour, and the topics of circular economy, preventing carbon leakage, and promoting trade in certain environmental goods and services all had a significant nexus to each other. What mattered was the embedded emissions of traded goods and how Members used trade policies to incentivize decarbonization to tackle the issue of embedded emissions in trade rather than focusing on the merit of each other's regulatory policies or whether a market explicitly priced carbon. The transition to a net-zero future would also require access to critical minerals, recyclable materials, and a transition from a linear economic model to a circular model that enabled recovery, reuse, repair, refurbishment, remanufacturing and recycling with minimal barriers in international markets.

3.6. Several Members welcomed the United States' discussion paper. One Member noted that discussions should be aligned with the principles and commitments in the United Nations Framework Convention on Climate Change (UNFCCC), the Paris Agreement and other multilateral agreements, especially the CBDR principle and NDCs. It further highlighted that it was important to ensure the free flow of trade in low carbon related goods, technologies and services rather than establishing measurement of carbon emissions. Another Member noted that any work or discussions on remanufacturing, refurbishment, repair and direct re-use should be cognisant and supportive of requirements laid down in relevant multilateral environmental agreements, including the Basel Convention. On the issue of carbon clubs, a Member noted that adherence to WTO rules and the Paris Agreement would be important for such a club. Further, this Member noted that such a mechanism should be cooperative rather than exclusive. Another Member recalled that discussions on carbon clubs were ongoing in the G7 forum.

- What trade-related climate measures and policies, including regulatory requirements, are Members pursuing, and what are their related objectives, design characteristics, and potential trade implications?

3.7. The representative of Canada stated that carbon pricing was central to its plan to fight climate change and reduce GHG emissions. Carbon pricing had been set throughout Canada since 2019 via a mix of federal, provincial and territorial pricing systems. The federal government had set minimum national standards that all systems should meet to ensure they were fair, effective and consistent. Canadian firms were subject to carbon pricing systems, which created incentives to reduce carbon pollution and spurred innovation. Further, since November 2020, Canada had been exploring the potential of BCAs as part of its transition to a low carbon economy.

3.8. The representative of Japan informed Members that it was currently designing a "Green Transformation League", which was a growth-oriented, flexible framework for reducing corporate GHG emissions. Participation in this programme was voluntary but so far covered over 40% of national emissions. The representative of Saudi Arabia provided examples of various policies and initiatives that aimed to reduce and remove GHG emissions, focus on climate adaptation, and manage the impacts of response measures. The representative of China briefed Members on its national carbon market, which had started online trading in July 2021.

3.9. The representative of Chile noted that it had had a carbon tax in force since 2014, which imposed levies on fixed sources that emitted carbon dioxide equivalent applied to the energy and industry sectors. The design of the scheme was currently being reviewed to ensure greater effectiveness. This review was part of the broader Strategy of Economic Instruments for the Energy Transition launched in March 2022, which sought to internalize the negative impacts of fossil fuel use in prices.

3.10. The representative of Switzerland briefed Members about the innovative mechanism regarding sustainable production of palm oil in the Comprehensive Economic Partnership Agreement (CEPA) between the European Free Trade Association (EFTA) States and Indonesia. It noted that the major innovation of the CEPA was the establishment of a link between the preferential tariff rate quotas for Indonesian palm oil granted under the CEPA and the sustainability criteria set out in the chapter on trade and sustainable development. In the absence of a universally accepted standard for the sustainable production of palm oil, parties to this agreement had decided to rely on well-established voluntary sustainability standards (VSS).

4 Presentation by the United Nations Industrial Development Organization (UNIDO)

4.1. The representative of the United Nations Industrial Development Organization (UNIDO) made a presentation on the challenges and opportunities for developing countries in decarbonizing their industry, as well as their Global Program for Green Hydrogen in the Industry and the Industrial Deep Decarbonisation Initiative (IDDI). More specifically, UNIDO set out three solutions to develop industrialization powered by clean energy: (i) accelerating the shift of industry away from fossil fuels; (ii) enabling decision makers to chart a low carbon path to economic progress; and (iii) fostering the rise of local entrepreneurs and innovators. The presentation highlighted that climate investments were lagging behind and there was currently a gap of USD 349 billion annually which needed to be invested in low carbon climate-resilient projects and business to enable implementation of NDCs. Barriers to accessing climate finance for MSMEs were witnessed across the supply and demand side. Systemic challenges highlighted in UNIDO's presentation were: (i) continued reliance on fossil fuels; (ii) renewable energy's inability to produce a high-temperature heat; (iii) lack of carbon pricing, emissions trading and border adjustment taxes; and (iv) weak policy environments.

4.2. According to UNIDO, the Clean Energy Ministerial Industrial Deep Decarbonisation Initiative (IDDI), a global coalition of public and private organizations who were working to stimulate demand for low carbon industrial materials, could play a significant role in limiting carbon emissions. The IDDI (UNIDO-coordinated, co-led by the United Kingdom and India) aimed at stimulating public and private demand for low carbon steel and cement by building capacity and guidelines for data collection and reporting on emissions, standardizing carbon assessments and setting green procurement targets. The presentation also highlighted two key gaps in promoting the decarbonization of industrial sectors: data and standards and green public procurement policy.

5 Exchange of views by Members

- What are the challenges facing MSMEs globally, and for developing countries, with regard to the design and use of trade-related climate measures and policies, and how can these be addressed?

5.1. Several Members presented comments on UNIDO's presentation and highlighted the challenges in the design and implementation of carbon pricing for MSMEs, especially in developing countries. One Member emphasized that WTO Members should consider employing existing technical assistance tools to support their participation in technical discussions on those topics. It further noted that challenges related to the application of regulatory requirements may make it challenging to calculate actual emissions in products, which could prevent lower-emission products from benefitting from lower fees or restricting exports altogether. To address some of these concerns, it stressed the importance of capacity building, technical assistance, financial assistance, slow phase-ins and tailoring reporting requirements.

5.2. Two Members highlighted the important role of WTO Aid for Trade in receiving technical assistance. One Member noted that the WTO Aid for Trade Initiative and other innovative financing mechanisms to address climate change had an important role to play by mobilizing funding for critical supply-side infrastructure, enhancing environmental sustainability and supporting the private sector to adapt to climate change. However, WTO Aid for Trade needed to be better targeted to address development concerns that were aligned to LDCs' NDCs. Another Member also highlighted the importance of Aid for Trade and transfer of technologies for MSMEs.

5.3. A Member noted that MSMEs might face additional barriers in adopting trade-related climate measures and policies compared to other businesses. Introducing complex and opaque regulations risked compounding the challenges faced by MSMEs. Another Member stated that data collection, benchmarking and developing methodologies to measure carbon emissions across supply chains were necessary before Members could address climate change through trade. The Member also suggested that the ongoing discussions should focus on specific sectors that were high carbon emitters rather than an industry-wide assessment.

6 Intervention by Stakeholders

6.1. The Forum for Trade, Environment and the SDGs (TESS) suggested that the working group could develop hybrid guidelines that accounted for disciplines in trade as well as environment and climate change.

7 Conclusion

7.1. The facilitators thanked Members for their contributions which further enhanced transparency on trade-related climate measures, including on related objectives and possible trade implications. They also recalled that Members had heard challenges that MSMEs and developing countries were facing regarding decarbonization and the implementation of trade-related climate measures. The facilitators concluded by noting that many Members had set out their priorities for the work within the group and invited interested Members to discuss their ideas further.
