



## TRADE AND ENVIRONMENTAL SUSTAINABILITY STRUCTURED DISCUSSIONS (TESSD)

### COMMUNICATION BY JAPAN

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#### *Proposal on Contributions to Achieving Global Carbon Neutrality at the WTO*

### 1 BACKGROUND

1.1. The Paris Agreement calls for achieving a balance between anthropogenic emission and removals by sinks of greenhouse gases in the second half of this century, and by 2020, more than 120 countries have pledged to achieve carbon neutrality by 2050.

1.2. Working towards the goal of Paris Agreement which is to achieve global carbon neutrality, the WTO, which is a responsible body for the multilateral trading system, is expected to address climate change as one of its main agenda items and deliver building blocks to promote reduction of global carbon emissions.

1.3. While the negotiation on the Environmental Goods Agreement (hereafter "EGA") had been stalled, in bilateral and regional trade agreements, in addition to the provisions which requires compliance with existing international environmental agreements, there are a number of provisions which likely have an impact on domestic environmental measures.

1.4. Some countries and regions took carbon border adjustment mechanism against other countries and industries with insufficient measures for carbon reduction into consideration.

1.5. In light of such international trends, we should identify ways in which the WTO can maximize its contribution to global carbon neutrality, considering the current international attention that carbon neutrality is receiving, and proceed with discussions towards MC12.

### 2 OBJECTIVE

2.1. To achieve global carbon neutrality, it is necessary, not only to utilize existing products and technologies, but also to newly develop and globally spread innovative products and technologies that contribute to emission reduction. For that purpose, it is essential to remove trade obstacles such as through elimination of tariffs as discussed in the process of the EGA negotiations.

2.2. Tariff elimination is not enough to promote the spread of these products and technologies. We should also work on rule-making related to regulatory issues to facilitate transactions from production to consumption, and prevent arbitrary trade obstacles from being introduced in the future. The WTO has the ability to introduce new rules, from a trade facilitation perspective, that push governments' emission reduction efforts.

2.3. In this sense, to achieve global carbon neutrality, we should start discussing concrete ways towards (1) elimination of tariffs on goods that contribute to emission reduction; and (2) rule-making to promote dissemination of such products and technologies simultaneously.

2.4. In order for the WTO to achieve meaningful results on environmental issues in a timely manner, this proposal focuses on issues related to carbon neutrality which have been drawing political attention. However, depending on the interests of the Members, there are possibilities to extend the scope of the discussion articulated in paragraph 2.3 above to other environmental objectives.

### **3 ELIMINATION OF TARIFFS**

3.1. Goods subject to tariff elimination should be products using technologies which directly contribute to the reduction of greenhouse gas emissions (hereafter "environmental goods") towards realization of global carbon neutrality. When identifying the "environmental goods", we should consider including goods which were not covered in the lists in the EGA negotiations, taking into account the recent development and spread of new technologies.

3.2. Sectors that "environmental goods" are considered to belong to are, for instance, (1) wind power; (2) fuel ammonia; (3) hydrogen; (4) mobility; (5) battery; (6) carbon recycling; (7) housing and building; (8) solar energy; and (9) resource circulation. Specific goods subject to this initiative, including ones that belong to other sectors, will be identified through discussions among the Members from the perspectives of whether they use technologies that directly contribute to greenhouse gas emission reduction or that are required during the period of innovative technology transition. Given that carbon neutrality can only be achieved through development, introduction and dissemination of new technologies over the next decades to come, different from conventional liberalization negotiations focusing on goods already in the market, we should bear in mind the necessity of including goods that are expected to become widely used in the market from a mid-to-long term viewpoint.

### **4 RULE-MAKING ON REGULATORY ISSUES**

4.1. In order to realize the prompt spread of the "environmental goods" globally, we need to proceed discussions on rule-making on regulatory issues so as to promote research and development, strengthen supply chains, facilitate diffusion, and enhance transparency of domestic measures, in conjunction with tariff liberalization. The contents listed in paragraphs 4.2 to 4.5 below are examples of solutions to possible issues. We welcome various input from Members based on their experiences such as in bilateral and regional agreements.

4.2. Examples of possible actions for promoting research and development.

- a. Newly developed "environmental goods" need to be promptly launched and spread in the market. The launch and spread of "environmental goods" can be promoted by shortening patent examination processes and providing patent protection expeditiously.
  - i. Shortening the waiting period of patent examination of technologies related to "environmental goods", upon request.

4.3. Examples of possible actions for strengthening supply chains.

- a. Access to the "environmental goods" need to be secured when each country is bolstering its effort to reduce greenhouse gas emissions. Thus, it is necessary to avoid trade restrictive measures and facilitate trade.
  - i. Exempting from the imposition of export duties on "environmental goods".
  - ii. Strengthening rules on export restrictions regarding "environmental goods".
- b. Access to parts and raw materials that are critical for the production of "environmental goods" need to be secured for a stable production of "environmental goods". Thus, it is necessary to avoid trade restrictive measures and facilitate trade.

- i. Exempting from the imposition of export duties on parts and raw materials necessary for the production of "environmental goods".
- ii. Strengthening rules on export restrictions regarding parts and raw materials necessary for the production of "environmental goods".

#### 4.4. Examples of possible actions to facilitate spread.

- a. Each country needs to take initiative in procuring the "environmental goods" and aim to expand demand of these goods by increasing global public demand.
  - i. Following rules such as non-discrimination treatment and providing a sufficient time-period for the tender process stipulated in the Agreement on Government Procurement, when procuring "environmental goods" which exceed a certain threshold.
  - ii. Requiring considerations by central governments of whether to include the amount of greenhouse gas emission reduction that occurred during the use of certain "environmental goods" within the criteria (e.g. energy saving performance) when formulating the technical specifications for procurement of such "environmental goods".
- b. In order for dissemination of the "environmental goods", it is necessary to ensure to the extent possible that the newly introduced technical regulations and conformity assessments of each country do not disturb trade.
  - i. Promoting harmonization of technical regulations and conformity assessment procedures, with international standards.
    - Explaining the reasons and providing available technical evidence, upon request, if relevant international standards are not used as a basis for its technical regulations or conformity assessment procedures.
  - ii. Enhancing transparency when adopting technical regulations and conformity assessment procedure.
    - Notifying proposals for new technical regulations and conformity assessment procedures that are in accordance with the technical content of relevant international standards and that may have a significant effect on trade to the WTO and inviting written comments.
    - Allowing in principle at least 60 days from the date of notification to provide written comments to the proposal of technical regulations or conformity assessment procedure.
  - iii. Providing relevant information on which it has relied in the preparation of its technical regulation, upon request.

#### 4.5. Examples of possible actions to enhance accountability and transparency of domestic measures.

- a. In order to achieve global carbon neutrality, it is necessary to not retreat measures for reducing greenhouse gas emissions.
  - i. Do not encourage trade and investment by weakening or reducing the levels of greenhouse gas emission reduction measures
- b. Discussions on carbon border adjustment measures need to be stimulated at the WTO to avoid future trade conflicts.

- i. Discussing how carbon border adjustment measures should be formulated based on the GATT principles

## **5 RULE-MAKING ON ENVIRONMENTAL SERVICES**

5.1. Attention should be paid to the fact that there have not been thorough discussions on environmental services, compared to goods that had been dealt with at the EGA negotiations and APEC. Taking into account previous discussions at the Council for Trade in Services and ongoing work within other fora such as APEC, support should be given to the discussions on identification of environmental services.

5.2. In relation to the JSI on domestic regulations, there are ongoing discussions on rules such as on providing indicative timeframes for processing applications, informing the applicant of the reasons for rejection, and providing opportunities to comment on new laws and regulations. Prompt agreement on this JSI should be supported.

## **6 CAPACITY BUILDING**

6.1. In order for developing countries and LDCs to disseminate products and technologies which contribute to greenhouse gas emission reductions in their countries and steadily promote emission reductions, it is crucial to take actions such as formulating appropriate technical regulations based on international standards. Capacity building to support such efforts needs to be considered.

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