

# UKTPO

UK TRADE POLICY  
OBSERVATORY

SPECIAL REPORT

TOWARDS A COMPREHENSIVE  
UK GREEN TRADE STRATEGY

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## INTRODUCTION

As the world economy and international trading system start to recover from the COVID-19 pandemic, UK policymakers must ensure that their interventions complement, rather than undermine, the UK's environmental objectives. This is particularly true of the drive for Net Zero. In this Special Report, we identify the trade tools available to a UK government looking to use its independent trade policy to support its green ambitions.

This year, in the run-up to COP26, which the UK is hosting in Glasgow, UK interest in the interaction between trade and the environment has increased.

This increased interest has led the Board of Trade (a UK government body tasked with advising the government on trade matters) to publish a report on [Green Trade, with a focus on international trade as an effective lever for combatting climate change and other forms of environmental degradation](#). The House of Commons International Trade Committee has also launched an inquiry into [Climate and Trade](#). A separate group of parliamentarians are [looking at how trade rules can be aligned to meet climate and environmental goals](#).

However, existing discussions are often conducted at a high level, with little in the way of concrete policy proposals, or a full appreciation of the interlinkages between trade and the environment, as well as broader economic and regulatory policy.

In an attempt to move the conversation forward, we explore a number of options available to a UK government looking to implement an effective green trade strategy, covering four main areas:

- (a) International trade negotiations and cooperation
- (b) Unilateral actions
- (c) Decarbonising and greening international trade and supply chains
- (d) Government incentives to support a green trade strategy

While we have not been able to cover every single issue in the depth they deserve, our hope is that this paper will serve as a useful reference point for policymakers, businesses and civil society as they attempt to shape and influence the UK's trade and environment agenda.

## INTERNATIONAL NEGOTIATIONS AND COOPERATION

### 1. Joining the Agreement on Climate Change Trade and Sustainability (ACCTS)

The UK should join the ACCTS negotiations. Six countries (New Zealand, Costa Rica, Fiji, Iceland, Switzerland and Norway) are close to concluding negotiations for a new trade agreement, which would liberalise trade in environmental goods and services, eliminate fossil fuel subsidies and set guidelines for eco-labelling. ACCTS would be the first explicitly climate-focused plurilateral trade agreement and, if successful, could potentially set the parameters for broader multilateral discussions.

UK membership of ACCTS has received support from Conservative-leaning think tanks such as the [Centre for Policy Studies](#), and development charities such as [Traidcraft](#). The Labour party has also called for the UK to join the agreement.

But, as at the time of writing, the UK government has been unable to commit to joining the negotiations due to concerns

about the scope of tariff-elimination on environmental goods (the UK has identified 23 tariffs it would like to retain, for use as negotiating leverage in future trade negotiations) and the principles underlying the discussions on fossil fuel subsidy reform. However, in the context of its professed desire to be a global leader on climate change, the UK's objections are unconvincing, and it should reconsider its position accordingly.

### 2. Relaunching the Environmental Goods Agreement talks

A subset of the WTO membership launched negotiations on an Environmental Goods Agreement (EGA) in 2014. The EGA would have seen tariffs removed on a large number of environmental goods. However, the negotiations did not conclude, due to disagreement over, for example, whether bicycles should be considered an environmental good or not.

However, a number of World Trade Organization (WTO) members want to re-launch something akin to the EGA negotiations as part of wider talks known as the Trade and Environmental Sustainability Structured Discussions, or TESSD for short in 2020. This group, including the UK, currently includes the EU and a number of other developed and developing countries. The [initial statement](#) launching the initiative included a commitment to "working on possible actions and deliverables of environmental sustainability in the various areas of the WTO". Since then, Australia has put forward a Zero Draft Discussion Paper which includes proposing a pathway to restart negotiations on "liberalising and facilitating trade in environmental technologies, goods and services."

Re-opening the EGA negotiations will not be easy. Technologies, products and peoples' conception of what constitutes an environmental good have moved on since 2014, and countries will have different priorities today which is why in addition to restarting the EGA, the UK can pursue supportive policies such as joining the ACCTS, unilateral tariff reductions and the reform of customs nomenclature which are discussed in more detail below.

The UK should contribute to this discussion by commissioning studies aiming to identify which new environmental products could be included as part of a re-vamped negotiation. It could also seek to identify products that could benefit developing countries in order to entice them into joining the negotiations. The think-tank, IISD, has recently published [new research](#) on some of these components and products in the renewable energy sector. By undertaking such research, the UK Government would have a greater evidence base with which to undertake consultations on its own priorities as part of any negotiations, as well as a means of engaging with other WTO members about whether or not to join the relaunched negotiations.

The UK should also be conscious of the pitfall which plagued the EGA negotiations: how to deal with dual-use products (which may have both an environmental and non-environmental purpose) via so-called "opt-outs". These opt-outs risk making administering any agreement difficult for customs officials and supply chain managers. Previous experience of the negotiations showed that an imperfect but functional opt-out is better than a perfect one that is unusable by businesses and customs officials, as overly complicated rules could impair the ability of businesses to actually take advantage of the reduced tariffs for environmental products. More research into how these opt-outs can be best applied would go a long way to helping future negotiations progress a little more smoothly. The UK could also utilise this work as part of underpinning any

risk-assessments at the border when implementing any opt-outs.

Finally, the UK should continue to advocate (as it did during the EGA negotiations) that any new environmental goods outcome should be a living agreement, which incorporates a robust review mechanism as part of the legal text of the agreement. This, critically, can be extended to new environmental technologies and products as they are developed. It would ensure the new agreement does not lock-in obsolete technologies.

### 3. Reform of customs nomenclature

Accurately identifying and targeting environmental goods for preferential tariff treatment requires the involvement of the World Customs Organisation (WCO). While the WTO governs how high the tariffs are, the WCO governs product categories and determines how to tell them apart. This is done through the Harmonised Commodity Description and Coding System (HS).

Every five years or so the WCO updates this system. Ahead of the 2027 review, the UK should put forward proposals based on research commissioned in the near future and build support for a clearer differentiation of environmental goods, in order to improve data on environmental goods trade and ensure that administering any future agreement is made considerably easier. Ronald Steenblik, formerly of the Organisation for Economic Co-operation and Development (OECD), has written about what could actually be done to make it easier [here](#), including by identifying products where classification reform would be beneficial as part of the next HS review in 2027.

### 4. Preparing for FTA negotiations – Sustainability Impact Assessments

Impact assessments are an important means by which governments identify risks and opportunities with prospective trade partners ahead of negotiations. The UK government has undertaken partial impact assessments before entering into Free Trade Agreement (FTA) negotiations: with the UK-Australia negotiations, the Department for International Trade (DIT) published the [UK-Australia Free Trade Agreement: The UK's Strategic Approach](#) as well as a similar document for New Zealand.

While the “Scoping Assessment” section of these documents does include a short section dedicated to the potential impacts on the environment and labour standards, the level of detail falls short of the practice of many of the UK's European trading partners. The EU's impact assessments, in particular, are now largely dedicated to assessing the economic, environmental and social impacts of trade agreements with much more equal weighting. The RESPECT initiative which is part of the EU's Horizon 2020 programme has recently undertaken a [project](#) to try and improve the methodology of these studies. The European practice also includes the use of external experts to provide an independent analysis of the sustainability impact assessment (SIA), which is an opportunity both to improve the robustness of the analysis but also ensure greater buy-in from stakeholders.

While an obligation to include SIAs was rejected by the House of Commons, the [2021 UK Trade Act](#) does require the government to maintain UK levels of environmental protection and the protection of human, animal and plant life, as well as protection of employment and labour rights.

The UK should reconsider its reluctance to conduct SIAs and

instead embrace the opportunity to improve its assessments of the environmental and social impact of trade agreements ahead of future negotiations. This would help to identify areas of particular concern among stakeholders and allow the government to work with interested parties to craft a more impactful trade agreement.

It is also important that the UK commits to ex-post assessments after a defined period of time of the trade agreements being in force (for example five years) to improve the accuracy of SIAs and provide recommendations on future improvements to the trade provisions negotiated by the UK government. Dr Emily Lydgate (of the UKTPO) wrote a briefing on [assessing the sustainability impacts of trade agreements](#) which goes into more detail on recommendations for UK SIAs.

### 5. Negotiating trade and Sustainable Development chapters in FTAs

Increasingly, countries around the world are addressing environmental issues in their trade agreements. The EU and the US have been pioneers in including provisions relating to the environment and labour into their trade agreements over the past twenty years, but they approach the issues differently. Broadly speaking, the US has chosen a narrower approach that focuses on enforcement of a more limited set of provisions, while the EU has taken a more wide-ranging approach with a greater focus on cooperation between the trading partners.

To a large extent, in the new UK-Japan Comprehensive Economic Partnership Agreement (CEPA) the UK appears to have replicated the sustainability arrangements of the EU-Japan Economic Partnership Agreement. The terms of the Trade and Sustainable Development (TSD) chapter reaffirm the right to regulate. It also reaffirms the parties' commitments under various International Labour Organization Conventions and obliges them to cooperate across a wide range of Multilateral Environment Agreements (MEAs). These include product-specific initiatives around timber and fisheries, as well as broader efforts to combat the trade of endangered flora and fauna. The chapter also sets up various consultation mechanisms between the two parties as well as with their respective civil society organisations.

The provisions of the TSD chapter are not subject to the same dispute settlement provisions as the harder markets access commitments are. Instead, there are separate arrangements through the UK-Japan Committee on Trade and Sustainable Development and the involvement of a panel of experts where agreement cannot be found. As with EU TSD chapters, beyond public shaming, there are ultimately no penalties for non-compliance.

Some countries, such as the European Free Trade Association (EFTA) bloc have decided to publish [model provisions](#) on green issues which include articles on: Sustainable Forest Management and Associated Trade, Trade and Climate Change, Trade and Biological Diversity, Trade and Sustainable Management of Fisheries and Aquaculture, Trade and Sustainable Agriculture and Food Systems, Promotion of Trade and Investment Favouring Sustainable Development, Responsible Business Conduct, Panel of Experts. These articles, and an article on gender equality called Inclusive Economic Development and Equal Opportunities for All were published in 2020, and an article on International Labour Standards and Agreements was also strengthened. While such model provisions are unlikely to be adopted in full by trading partners, they do provide a benchmark by which stakeholders can judge and underline the objectives of the proposals being

made.

While more can be done to green FTAs as a whole (in areas identified throughout this paper), if we focus on the TSD chapter itself, its success is predominantly a function of the level of resource, time and political capital that both Parties commit to the implementation of its provisions and continued cooperation. So long as there are weak incentives to comply, then weak compliance is likely. Many countries will resist allowing for TSD provisions to be subject to enforceable dispute settlement, but that does not mean the UK should not try.

Effectively implementing these provisions will also require meaningful engagement with stakeholders, whether through civil society forums set up by the FTA or as part of other ongoing consultations. The UK should consider consulting on, and publishing, its own model TSD provisions, with the acknowledgement that they remain subject to individual negotiations.

## 6. FTA conditionality

Governments are under increased pressure from civil society groups, farmers and some businesses to incorporate greater environmental conditionality into their FTAs, particularly when an FTA involves significant liberalisation of trade in agricultural and food products. Switzerland recently concluded an FTA with Indonesia that made preferential tariff treatment for imported Indonesian palm oil conditional on the palm oil being signed off by a private certification scheme. The EU has also included provisions in its trade deal with the Mercosur bloc, conditioning preferential tariff treatment for imported eggs on compliance with EU animal welfare rules. The EU-UK Trade and Co-operation Agreement goes as far as to condition continued duty-and-quota free trade on non-regression from existing EU and UK environment and climate levels of protection.

Environmental conditionality in FTAs can exist on a spectrum. At its most stringent, the entire FTA can be conditioned on compliance with a set of rules. A less prescriptive approach could see, for example, select tariff-rate quotas, or tariff reductions, open only to a selection of products that comply with specific rules. Either way, environmental conditionality is not without its controversies. Countries at a lower level of development often view conditionality with suspicion, as a form of concealed protectionism by richer countries. But domestic pressures mean that the UK will not be able to avoid the discussion entirely – and in circumstances where it facilitates a greater level of liberalisation than would otherwise have been accepted by the domestic population, may allow the UK to deliver on both its environmental and trade objectives in tandem.

## 7. Trade in environmental services

While much of the focus of discussions on trade and the environment centres on trade in goods, a significant proportion of the value created in the environmental sector derives from services. For example, a solar panel is useful in large part thanks to the research and design that went into creating it, the installers who mount it on a roof or solar farm, and the technicians that maintain and repair it over a number of years. These environmental services can also be traded and often face much higher barriers than the products themselves do. These restrictions can take the form of mandating equity caps for commercial establishment, the nationality of boards of directors, data localisation measures, as well as mobility concerns around business visas.

Similar to environmental goods, environmental services continue to suffer from definitional issues. In the [classification system used for services in the WTO](#), the definition of environmental services is limited to sewage, refuse disposal, sanitation, noise abatement, cleaning of exhaust gases and environmental protection services. Broader environmental-related services, which are nonetheless essential inputs to any environmental project, are not currently included. The lack of a broader definition of environmental services means that few countries have bound market access and national treatment commitments covering the sector, leading to uncertainty and a lack of clarity for providers.

At the WTO, the UK has joined Australia, Canada, Mexico, New Zealand, and Switzerland to explore market access barriers for trade in environmental services. The lack of agreed definitions also makes it harder to specifically target environmental services for further liberalisation efforts. The City of London Corporation together with KMPG has recently published a [report](#) which provides an overview of WTO Members existing commitments on environmental services.

The co-sponsors of the WTO proposal have put forward a list of other services sectors relevant to climate change and environmental issues. This included engineering, architectural, distribution, construction and consulting services, and have expressed interest in improved commitments in these areas. These efforts at the WTO are complemented by measures being taken in the APEC region, which has an [Environmental Services Action Plan](#) and has just published a huge new study on [environmental services in the region](#).

It is a positive signal that the UK is a co-sponsor of these discussions. However, through both its free trade agreements and at the WTO more can be done both in terms of tackling market access barriers to trade in environmental services, including publishing such market access barriers to environmental services around the world and facilitating the recognition of relevant professional qualifications and the movement of environmental services suppliers across borders.

## 8. Regulatory cooperation in environmental services

In addition to provisions in FTAs governing market access and national treatment of service providers, regulatory cooperation is an increasingly important component of services trade. This is particularly the case with trade in financial services which are driving developments in sustainable finance. The UK-Japan trade agreement has demonstrated that the UK is willing to pursue ambitious objectives in setting up dialogues and cooperation among regulators.

The UK Government should seek to establish regulator-to-regulator discussions on environmental services' regulation and options for international cooperation which could be embedded within FTA structures. These dialogues need to be paired with appropriate mechanisms for industry input. There are examples of this across the financial and related-professional services sector from which this broader range of environmental service providers can take inspiration. One example is the International Financial Reporting Standards (IFRS) Foundation working with the International Organisation of Securities Commissions (IOSCO) to [encourage progress](#) towards a globally consistent set of international standards for sustainability-related disclosures.

## 9. The trade-related elements of environmental agreements

Multilateral Environmental Agreements (MEAs) can be used to control trade in certain products and to commit parties to



mutually taking action to prevent environmental degradation. The UK participates in many MEAs such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, and the Stockholm Convention on Persistent Organic Pollutants.

Free Trade Agreements typically include provisions re-affirming commitments to these MEAs, a trend the UK looks likely to continue, as seen in the [UK-Australia FTA Agreement in Principle](#). Committing trading partners to join MEAs that they have not yet ratified would be a positive for trade policy. However, when partners are already bound by the same MEAs, and hence do not take on additional commitments, there is little additional gain unless the benefits of the agreement are conditioned on the continued implementation of the MEAs.

As technologies and priorities evolve, so too must MEAs in order to effectively address emerging issues. A good example of this is the EU proposal to expand the number of covered products relating to e-waste under the Basel Convention. Such proposals will be of increasing significance as the global economy moves to a more circular model. Similarly, the UK should continue to promote the use of MEAs amongst trading partners, however, there must also be a focus on updating MEAs where necessary and establishing new conventions if needed.

#### 10. Plastic Waste

The trade and environmental communities are increasingly discussing the impact of plastic. As mentioned in the section above, Norway has submitted a [proposal](#) to amend the Annexes of the Basel Convention to specifically cover plastic waste with the stated objective of preventing the flow of plastic waste to countries unable to process the waste. In May 2019, the Conference of the Parties to the Basel Convention unanimously adopted the Plastic Waste Amendments which introduce new categories for plastic waste. There are also increasing calls for UN members to negotiate a new [Plastic Pollution Treaty](#) from a large collection of businesses. The UK, together with over 100 nations, have voiced their support for such a treaty but the process of negotiating a new global agreement has yet to fully start.

At the WTO, there is an [Informal Dialogue on Plastics Pollution and Environmentally Sustainable Plastics Trade](#) process taking place which is focused on enhancing transparency and international cooperation. As a starting point, there is an attempt to establish a solid factual basis of current plastics trade, with a view to reaching an outcome at the WTO's 12<sup>th</sup> Ministerial Conference. The UK should support these efforts and ensure that they are aligned with developments taking place in other fora.

Domestically, the UK Secretary of State for Environment and Rural Affairs will be granted powers to restrict the import and export of plastic waste from non-OECD countries foreseen under the Environment Bill, which is currently going through the UK Parliament. This will be combined with the new Plastic Packaging Tax which importers and UK producers will face for any plastic packaging not containing at least 30% of recycled material and expands the ban on single-use products. The new tax will enter into force in April 2022.

These policies should be aligned with the UK's international policy objectives under the Basel Convention but also the WTO. This could promote a more proactive use of recycled material as part of production supply chains as well as phasing out the

use of single-use plastics.

#### 11. International green procurement

Procurement is often viewed by governments as a useful tool to instigate environmental reform. For example, bids for government contracts might be made contingent on companies committing to meet certain environmental standards. However, procurement commitments in trade agreements and at the WTO are sometimes blamed for government procurement not delivering on environmental objectives.

Yet, when it comes to procurement, it is rarely the environmental objectives that come into conflict with a country's trade commitments; rather it is the supplementary obligations. These might be discriminatory requirements for example, to give local firms preferential treatment, or for materials to be locally sourced. As with its approach on standards (see below), the UK must be vigilant, in order to ensure not only that any environmental obligations attached to its procurement regime respect its international obligations, but also that they do not unjustifiably discriminate against foreign providers. Doing so should also lead to better environmental outcomes by focussing exclusively on ensuring the most appropriate supplier is granted the contract, no matter where in the world they originate, rather than being forced to rely on a more limited local market. The UK has made [progress](#) in this area with an obligation for firms wishing to participate in government procurement opportunities to have committed to Net Zero and have published a carbon reduction plan.

Now that the UK has acceded to the WTO's Government Procurement Agreement (GPA) this year, it should get involved in the [Work Programme](#) on Sustainable Procurement, which has stalled following its initiation in 2012.

Although improvements can always be made, the UK has a positive story to tell with its experience of government buying standards for sustainable procurement. Where progress cannot be made quickly in the WTO, then the UK should be looking to promote such tools through the procurement chapters in its FTAs as well as helping to share experience of promoting sustainable procurement practices with other countries.

#### 12. Tackling environmentally harmful subsidies

The existing commitments of members under the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement) do not categorically discipline government subsidisation of environmentally destructive actions. Reform of the rules governing state subsidies is now high on the multilateral environmental agenda, with a focus on eliminating harmful and counterproductive subsidies, namely fossil fuel subsidies and harmful fishing subsidies.

Recently, New Zealand relaunched its campaign to deliver WTO action on fossil fuel subsidy reform. While the UK has not supported this yet, it is notable that previous sceptics of this campaign (such as the EU) are now voicing their support.

However, the UK Government secured [agreement](#) at the G7 Environment Ministers of a commitment to end fossil fuel subsidies by 2025. The UK should prioritise turning this commitment into action through other fora by joining this WTO initiative, and taking on its disciplines as part of the ACCTS negotiations (see above). This would also support commitments that the UK has made as part of the Paris Agreement and the United Nations Sustainable Development Goals (SDG 12 target (c)).

There are also ongoing talks at the WTO on a new multilateral agreement designed for countries to eliminate harmful fisheries subsidies. The talks have not progressed smoothly, with long-running tensions around developing country status and obligations bubbling to the surface, but there is still a chance that they will be concluded by December 2021 in time for the 12<sup>th</sup> WTO Ministerial Conference (MC12).

The UK has been using its G7 Presidency to push the issue of harmful fishing subsidies and has secured commitments through both the trade and environmental tracks of the talks. The UK has also [committed](#) £500 million to support developing countries to protect the marine environment, engage in more sustainable fishing, and reduce poverty through the 'Blue Planet Fund'. In addition to continuing to push for a multilateral outcome at the WTO this year, the UK could seek to include enforceable commitments on harmful fishing subsidies in its bilateral FTAs.

### 13. Investor-State Dispute Settlement (ISDS)

ISDS provisions are included in a number of the UK's bilateral investment treaties and FTAs, and allow for foreign investors to bring claims against governments in the event of direct or indirect expropriation of assets. In the past, foreign investors have used ISDS provisions to seek compensation for a range of government interventions related to the environment.

These include disputes related to oil spills in the Amazon, the decommissioning of nuclear power plants, restrictions on new oil and gas projects, and the phasing out of renewable subsidies. Litigating ISDS cases is expensive, and the payouts can be substantial (the largest award to date was of \$57 billion to the former shareholders of Yukos in a dispute with Russia).

The potential high costs of losing (or even successfully defending) a dispute has led some environmentalists to argue that ISDS provisions create a regulatory chilling effect. They argue the mechanism could cause governments to think twice about pursuing climate action, particularly if it will negatively impact certain companies. However, the reality is more nuanced. As referenced above, ISDS disputes have been brought against governments for rolling back pro-environment measures as well as introducing them.

ISDS reform efforts are underway within the EU and within the United Nations Commission on International Trade Law (UNCITRAL). The EU has proposed a new Investment Courts System as part of its FTAs with Canada, Singapore, Vietnam and Mexico which would address issues around transparency and conflicts of interest by creating a permanent roster of judges. But in respect of its new FTAs, the UK government has yet to express a firm position on ISDS. However, in the context of the ongoing renegotiation of the Energy Charter Treaty (a treaty the UK is party to, along with 52 other signatories, which includes ISDS provisions that have been used by companies to bring some of the more high profile cases against governments), the UK should consider supporting the EU's proposal to carve out fossil fuels from its coverage.

## UNILATERAL ACTIONS

### 14. Removing tariffs on environmental goods

Removing tariffs on environmental goods is beneficial for two reasons. First, it makes imported environmental goods cheaper. Second, it allows environmental goods to compete on a level playing field with non-environmental products which have already had their tariffs eliminated. For example, in the

past, many imported oil-related products were zero-rated while wind turbine components attracted substantial tariffs.

As part of its post-Brexit Global Tariff scheme (UKGT), which modified the common external tariff (CET) it applied while an EU member, the UK has already eliminated tariffs on a whole range of environmental goods.

If we compare the UKGT with the list compiled during the EGA negotiations (discussed above), the UKGT:

- Maintains existing tariff-free access for all 67 products from the EGA list that were already zero-rated under the EU CET; this category includes products such as photovoltaic cells and modules; machines and apparatus for the manufacture of boules or wafers (which are used in the manufacture of photovoltaic wafers); light-emitting diodes (LEDs); and various instruments and apparatus for measuring or checking the flow, level, or pressure of liquids or gases.
- Removes tariffs on an additional 133 product categories and sub-categories identified in the EGA list: tariffs on most of these products under the EU CET range between 1.5% and 4%.
- Reduces tariffs on another 57 product categories, albeit generally by 1 percentage point or less as part of a rounding exercise.

Ultimately, the UK declined to reduce five EU CET tariff lines from the EGA list from their previous levels. Notably, the 10% tariff on electric or hybrid-electric passenger vehicles and the 14% tariff on bicycles were not lowered.

The UK should now complete the exercise and remove the remaining tariffs on EGA goods. If more time is required to allow domestic industry to prepare, a phased tariff elimination schedule could be explored.

The utilisation of trade remedies on environmental products to address unfair market conditions in other countries, including the dumping of products by individual companies or the subsidisation of products by governments, would need to be dealt with as a separate consideration.

Looking to the future, the UK must continue to prioritise the elimination of tariffs on environmental products as part of any future unilateral tariff eliminations, so as to ensure that obsolete technologies are not given an unfair advantage over new ones.

### 15. Unilateral preference schemes

The UK has inherited a number of unilateral preference schemes from the EU which offer preferential trade terms to a number of developing countries: the Everything but Arms (EBA) agreements, standard Generalised System of Preferences (GSP) and GSP+. The GSP+ scheme, in particular, removes UK tariffs on around two-thirds of tariff lines from vulnerable low and lower-middle income countries (such as Sri Lanka and Pakistan) on the condition they sign up to 27 international conventions relating to human rights, labour rights, the protection of the environment and good governance.

The EU has recently [announced](#) that it intends to expand the number of international conventions GSP+ countries will be required to sign up to. These include six additional conventions on human and labour rights as well as replacing the UNFCCC Kyoto Convention with the Paris Agreement on climate change.

At the time of writing the UK is consulting on the reform of its own unilateral preference schemes. This affords an

opportunity to potentially include more stringent environmental commitments, and, for example, condition GSP+ treatment on continued commitment to the Paris Agreement. The UK will need to balance the impact of additional requirements to qualify for any GSP+ scheme with the impact that this will have on compliance in recipient countries. For example, among the eight GSP+ countries, the UK accounted for more than 10% of the exports of just two in 2017 (Kyrgyzstan & Mongolia) and close to 10% for Sri Lanka and 8% of Pakistani exports respectively.

The UK should also align the provision of Aid-for-Trade capacity building for more sustainable production of eligible products under GSP+ (see below for more). This is particularly important as IISD has [noted](#) that exports from developing countries have the potential to be disproportionately impacted by developed-country's climate and environmental policies.

#### 16. Right to regulate

WTO Members' rights to implement legislation that meets their own environmental policies has been confirmed through previous disputes at the WTO. However, such measures must not constitute arbitrary or unjustifiable discrimination or a disguised trade restriction. This right to regulate is often replicated in FTAs, including in the UK's own trade agreements.

Any measure which restricts trade in goods must be constructed within the boundaries of permitted exceptions to WTO obligations under Article XX of GATT. Under these permitted exceptions, WTO Members may adopt policies which are inconsistent with the GATT disciplines in order to protect human, plant or animal life or health and to conserve exhaustible natural resources, subject to certain conditions.

In some cases, like that of the Kimberley Process, the WTO granted a waiver that contravened WTO rules and allowed participants of the certification scheme to prohibit the import of diamonds from non-participants. Similar waivers have been issued throughout the WTO's history, and if necessary a WTO waiver might be needed in the future, as has been [suggested](#) by James Bacchus, as a means of avoiding disputes at the WTO if strong environmental action is needed that restricts trade.

## DECARBONISING AND GREENING INTERNATIONAL TRADE AND SUPPLY CHAINS

### 17. Tackling carbon leakage: Carbon-border adjustment

As countries act to reduce their CO<sub>2</sub> emissions through the introduction of carbon pricing, or more stringent environmental regulation, they run the risk of so-called carbon leakage. Carbon leakage is when environmental measures lead to carbon-intensive industry relocating to territories with less stringent environmental controls, so as to avoid additional costs. Such leakage poses a problem for policymakers because it both reduces the effectiveness of any action to combat climate change (in a closed system such as Earth, if the emissions just move to somewhere else then there is no climate benefit) and also because it can undermine political support for climate action, if jobs and production move abroad.

In order to protect the international competitiveness of its heavy-industry, and guard against carbon leakage, the UK currently grants some of the companies covered by its Emissions Trade System (ETS), which sets the domestic price of CO<sub>2</sub> free allowances.

Another means of preventing carbon leakage, which could

either replace or complement ETS free allowances, is a carbon border adjustment or tax. This would see imported goods hit with an additional levy contingent on the quantity of CO<sub>2</sub> embedded within them. This levy should be equivalent to the carbon price paid by domestic producers of like products. At the time of writing, the EU has tabled a carbon-border adjustment mechanism (CBAM) that would apply to imported steel, iron, aluminium, cement and electricity. Canada is consulting on its own border adjustment, and Democrat politicians in the US have tabled their own proposal.

With other G7 nations in the process of introducing their own carbon border measures, the UK will need to decide whether to do likewise. At a minimum, the UK should undertake a detailed assessment of the extent of carbon leakage of its international trade and of the possible impact of CBAMs imposed by other countries on UK traders. If the UK does implement a CBAM, then the UK will need to take into account the impact of other countries' actions on its own exports, and its ability to fulfil its climate objectives. For example, if the US and the EU levy additional duties on imported high-carbon steel, it is possible that high-carbon steel that would have otherwise ended up on the US or EU market will be dumped onto the UK's. If this were to happen, it could undermine business and public support for the UK's own decarbonisation efforts.

### 18. Decarbonising the international transportation system

Following the recommendation of the UK's Climate Change Committee in its Sixth Carbon Budget, the UK Government has committed to including shipping and aviation emissions as part of the UK Net Zero target.

However, looking to remove carbon emissions from international transport is a challenge in itself. From fragmented international governance structures with carbon emission negotiations being dealt with by the International Maritime Organisation for shipping and the International Civil Aviation Organisation's carbon offsetting and reduction scheme for aviation, respectively. There is also the more practical challenge of developing less-carbon intensive technologies and infrastructure to power ships and aeroplanes.

The lack of suitable infrastructure at ports has led to hesitancy among ship builders and owners to make the necessary shifts to new technologies and sustainable fuels. Due to the long lifecycle of international transport, the commercial viability of adopting new technologies and the availability of funding remain serious concerns.

While provisions relating to trade agreements are unlikely to feature heavily, cooperation through the UNFCCC and the inclusion of transport in national emissions trading schemes will be a topic the UK will have to grapple with for the foreseeable future, alongside CBAM.

Moving to the fuels themselves, many countries are establishing goals for substituting biofuels for fossil fuels. The UK has set out its objectives through the [Renewable Transport Fuel Obligation](#). Many countries have sought to meet their ambitious biofuel targets through imports. This has not been without controversy, both from the perspective of the relative value of different biofuels and the sustainability of the production of different biofuels around the world.

### 19. Trade and environmental standards

A key policy tool in the UK's effort to reduce carbon emissions is through standards and regulations determining how a product can be manufactured and used (e.g. product



standards, conformity assessments). This issue was first discussed as part of the plastics section above but here we consider some of the wider issues surrounding trade and environmental standards.

Yet the trade liberalisation agenda and the environmental agenda are still sometimes viewed as being in conflict. This is because environmental standards, rules and regulations are often, inadvertently or deliberately, designed in a way that discriminates against foreign producers. For example, the EU's updated [Renewable Energy Directive](#) – which aims for 32% of energy consumption in the EU to be sourced from renewable energy sources by 2030 – has led Malaysia to challenge the measure at the WTO. This is because the directive is perceived as unfairly discriminating against biofuels derived from palm oil (sourced from Malaysia) vis-à-vis other biofuel feed stocks such as rapeseed oil (sourced from within the EU).

As a result of leaving the EU, the UK has more freedom to overhaul its regulatory framework and redefine the principles it is based on, as set out in a recent [Taskforce on Innovation, Growth and Regulatory Reform report](#). Indeed, the OECD has produced [new research](#) identifying areas in which countries can use their FTAs and other forms of regulatory cooperation to pursue environmental objectives. Such examples include ensuring environmental provisions are included in FTA chapters on regulatory cooperation and good regulatory practice; and/or, developing specialised annexes dedicated to promoting cooperation around energy efficiency, chemicals or motor vehicles.

The International Standards Organisation (ISO) recently announced its [London Declaration](#) which commits to embedding key climate considerations in every new standard it develops, as well as any older standards when they are updated or reviewed.

This presents the UK the opportunity to evaluate whether product standards in the UK appropriately reflect environmental considerations and align product standards with wider policy objectives. However, coordination both at the regional level in European bodies such as CEN and CENELEC and international bodies such as the ISO, WTO, UN Economic Commission for Europe (UNECE) and Codex Alimentarius, on standard setting is needed to ensure divergent product standards do not act as a barrier to trade for environmental goods.

#### 20. Private standards and ecolabels

The past decade has seen a significant rise in the development of private Voluntary Sustainability Standards (VSSs) by large corporates, retailers and producers. Complying with VSSs, while not a legal market access barrier for those products to be traded, have become a barrier for many smaller producers due to the cost of compliance, particularly in developing countries. Complying with VSSs can be further complicated by multiple different requirements across different supply chains and represents an upfront cost. The International Trade Centre has developed a [Sustainability Map](#) which outlines the many different initiatives currently underway by sector and region of the world and IISD has an [overview](#) detailing some of the pros and cons of VSSs.

Many of these standards are accompanied by an ecolabel that can be affixed to the product which demonstrates that a level of compliance has been attained with regards to meeting that certain standard. However, the sheer number of different schemes has led to some consumer groups voicing concern over the lack of clear information being provided under the

different schemes.

The UK Government should encourage the alignment of different VSSs and, where possible working with standard-setting bodies. Work can also be done to provide capacity building to help smaller producers comply with the sustainability requirements of these initiatives by working together with the private sector, trade bodies, consumer groups and the British Standards Institute.

#### 21. Moving from supply chains to the circular economy

In order to reduce waste, governments and consumers are increasingly putting pressure on businesses to increase the longevity of products, and make them easier to repair, reuse and recycle. Government interventions in this space can take the form of recycling targets, rules around eco-packaging design, and regulations governing the structure of manufacturer guarantees, among other things. Collectively, these different policy approaches are known as the 'circular economy', and trade policy has a clear role to play in ensuring their effectiveness. The EU has embarked on an update of its Ecodesign Directive to develop a more holistic [Sustainable Products Initiative](#).

For example, customs rules need to be designed to ensure that goods can easily be returned to producers for repairs, without incurring additional charges or duties. The EU-UK Trade and Cooperation Agreement (TCA) contains provisions to this effect, with both parties agreeing not to "apply a customs duty to a good, regardless of its origin, that re-enters the Party's territory after that good has been temporarily exported from its territory to the territory of the other Party for repair". This is a positive step and should be replicated in future UK trade deals.

However, circular economy efforts can also create unnecessary stresses for businesses. A lack of international agreement on recycling classifications, or rules around product design, can lead to different markets requiring different approaches, which can create unnecessary additional cost for business and impede circularity. This can be compounded by limits on mobility and recognition of qualifications for experts who can provide the repairs required. To avoid this, the UK should continue to engage, shape, and align as much as possible, with European and international norms so as to avoid unnecessary divergence.

#### 22. Greening supply chains inputs

As the UK Government seeks improved trading arrangements with trading partners, businesses benefitting from the reduced cost of importing materials must do so in a way that supports the Net Zero objectives of the UK. To date, these measures have taken two forms, the first is import taxes based on the environmental production processes of products such as the plastic taxes and CBAMs and the second are regulatory requirements which define conditions as to how the inputs into the production processes need to be managed. Managing compliance with these latter regulatory schemes is complicated by the international nature of supply chains, moving people and products across borders. Legislative action can be both product-specific, such as the US-led Kimberley Process for diamond certification and systemic such as the UK's Modern Slavery Act, which is intended to end slavery and human trafficking and looks to ensure the production processes within a supply chain are free from labour violations. Conflict minerals are also increasingly in the spotlight with regard to supply chain regulations.



The UK Government should work to ensure the domestic measures are aligned to the greatest degree possible to avoid creating an overlapping regulatory environment where businesses spend a disproportionate amount of resources on compliance and reporting rather than reducing the environmental impact of their supply chains and implementing strong governance policies.

#### a) Deforestation

The UK Government has [proposed legislation](#) prohibiting larger businesses in the UK from using products grown on land that has been illegally deforested. Under this proposal, covered businesses would be required to carry out due diligence to ensure no illegal deforestation takes place throughout their supply chain and publish information on where certain commodities originate. This proposal uses local laws to determine what is permissible, although these measures can vary from country to country. The UK Government has not committed to applying any particular international standard for UK businesses, potentially leading to a situation where different businesses are subject to different standards if those businesses operate across different jurisdictions.

The EU has developed its [Forest Law Enforcement, Governance and Trade \(FLEGT\) Action Plan](#). The FLEGT contains a number of different elements including, supporting timber-producing countries, promoting trade in legal timber, improving public procurement practices, and supporting private initiatives among others. In terms of promoting trade in legal timber, this has taken the form of voluntary partnership agreements between the EU and timber-producing countries.

The UK Government has the opportunity to build on existing domestic and international frameworks which require businesses to identify, assess and act on the potentially harmful impacts of their supply chains on the climate and environment. Tackling deforestation can also have significant benefits with regard to biodiversity.

#### b) Organic agriculture

One topic that is at the intersection of many of the trade and environment issues described above concerns sustainable agriculture. In particular, organic standards that apply to all aspects of organic manufacturing and production, storage and sales.

While the UK managed to agree a temporary deal with the EU with regards to organic certification, the issue of third country inputs remains a concern. Ensuring the alignment of UK organic standards for agricultural products will be an important element of any trade arrangements with developing countries as developing country producers need to overcome issues related to labelling, packaging, conformity assessment as well as including technical assistance.

#### c) The Kimberley Process

The Kimberley Process is one of the earliest examples of a product-specific framework, which bans the trade in a specific good, unless certain internationally applicable standards can be met. Under this process, members agree to implement legal standards aimed at ensuring diamond purchases do not directly or indirectly finance armed conflict. Since its creation, the Kimberley Process has been criticised for being too narrow in scope and not going far enough to combat state-sponsored human rights abuses. The agreement did however set a precedent for frameworks aimed at reducing the proceeds of product-specific trade benefitting from human rights abuses. In recent years, states have built on the Kimberley Process to

implement legislation requiring businesses to examine their supply chain to identify the source of minerals, including the EU Conflict Minerals Regulation and Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Act in the US.

In the UK, the situation has been less certain. Following Brexit, EU Regulation does not apply to importers in the rest of the UK (apart from products moving into Northern Ireland under the Northern Ireland Protocol), the UK Government encourages UK-based importers to comply with the [OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#). The UK should seek to regularise this position by proposing new UK legislation based on the OECD guidance.

### 23. Corporate reporting

Reporting on climate-related risk has become increasingly widespread through the emergence of voluntary reporting standards, and the introduction of legal reporting requirements. International efforts on climate-related risk reporting have largely been led through the Taskforce on Climate-Related Financial Disclosures (TCFD), which is part of the G20's Financial Stability Board.

In the UK, the Bank of England and the Prudential Regulatory Authority (PRA) have been pioneering many of the approaches set out in the TCFD's recommendations. Since 2019, they have issued additional guidance on their expectations and leading practice across the four main areas of reporting, which include governance, risk management, scenario analysis and disclosure.

Currently, the obligations apply only to UK-based building societies, banks and insurers. However, as the government has announced that it is intending to extend the coverage to all listed companies and large asset holders by 2022, there will likely be downstream impacts for many businesses.

Sequencing of regulation and reporting must take into account the correlating flow of information from firms. Failure to take this into account can lead to inaccurate and incomplete disclosures due to a lack of information and data from other areas of the supply chain. This leaves regulators, firms, and consumers without an accurate understanding of the market.

Good policy across these issues requires good data. The government should decide what data should be collected and made public to be able to target policy actions to have the maximum impact (e.g. carbon and the environmental intensity of domestic industries and supply chains) as well as determining what data may be required by firms to ensure sustainability compliance.

Regulators should also create a model for data collection, explore public-private sector collaboration, and develop common positions and guidance on alternative data sources and reporting standards. By shaping reporting around these priorities, the UK can support a comparable standard for all levels of the supply chain from UK based SMEs to multinational corporations.

Appropriate sequencing, supported by regulators providing similar reporting standards, that produce comparable data will help firms incorporate climate-related data into their operations. The UK should collaborate with others to ensure that climate data and reporting is reliable, comparable, and verifiable.

As more companies are required to map and report on climate-related risks, these demands will have an increasingly international dimension for UK businesses. Information

will be needed across the value chain (e.g. on the issue of scope three emissions), forcing more businesses to engage on the issue of sustainability and businesses to review their international supply chains and trade operations.

## GOVERNMENT INCENTIVES TO SUPPORT A GREEN TRADE STRATEGY

### 24. Linking a green trade policy with trade promotion

Ambitious or even world-leading trade deals are of little benefit if businesses do not use them. Sometimes businesses need support when exporting their products and services overseas. It is this exact exam question that DIT is currently grappling with in order to develop a new Export Strategy which is meant to “to align [UK government] support for exporters with [their] plan for growth and sectoral priorities”.

In order to make this happen, the UK government needs to adopt a ‘product journey’ perspective which promotes interrelated UK products and services and helps to break down the different types of trade barriers which exports face. Rather than the siloed approach currently taken that is largely concerned with exporting particular types of physical products. It is important that information on green trade opportunities and Environmental, Social and Governance (ESG) practices are understandable and accessible for businesses of all sizes. Many firms have not yet grasped the basics of international trade, and do not know how to access and exploit the different opportunities available through various trade agreements and other trading arrangements.

This is also true of current UK Government market guides available on [great.gov.uk](https://www.gov.uk/government/collections/export-platform) (DIT’s export platform) which are far from complete when it comes to the UK’s offering from environmental and climate-related products, technologies, expertise and services. Much more can be done to ensure newer entrants into the market have the information they need to scale and take advantage of export opportunities.

### 25. Financing green exports

Trade finance can take a number of forms, all of which help the trading of goods and services. In its most basic form, trade finance provides the ability for a firm to manufacture and ship its product before having received payment from its customers for those products. These services provide liquidity to businesses to cover the gap between when the goods leave a manufacturer’s warehouse and are paid for by the customer, which can span into the weeks and even months depending where on the planet they are being shipped and delivered.

Where commercial providers in the UK cannot offer the level of finance required, companies may obtain government-backed finance, guarantees, or credit insurance via UK Export Finance. UK Export Finance has been doing a considerable amount in order to [support](#) the export of renewable energy products.

The UK House of Commons International Trade Committee in a [report](#) into the work of UK Export Finance found that “it has continued to provide a significant amount of support to other sectors with high greenhouse gas emissions.” The committee recommended that UK Export Finance consider how it can further contribute to meeting the UK’s Net Zero emissions targets.

[New research](#) from the Blavatnik School of Government suggests that there is much more that can be done in this field. This includes the commitments that export credit agencies like UK Export Finance can make when looking

to ensure that they move from prioritising climate-related products to finance and efforts to embed sustainability throughout all their operations. The UK Government should also work through the [OECD Arrangement](#) on Officially Supported Export Credits to ensure that future discussions on the Renewable Energy /Climate Change Sector Understanding are even more ambitious while ensuring the continued phase-out of the Coal-Fired Electricity Generation Sector Understanding.

Financing sustainable exports should also be linked with other sustainable finance initiatives that will increase opportunities to scale. For example, the UK Government and the City of London Corporation are working on a [Finance for Sustainable Growth](#) initiative. It is prioritising SME firms and working to connect them with London funding and regulation experts. As part of its pilot, the initiative will pair up funding from London with GreenTech firms in the northeast of England.

### 26. Green Trade Data

Improving the measurement of green trade flows is an important part of the UK government’s policy-making toolbox. The Office of National Statistics currently produces a yearly estimation of environmental goods and services exports as part of the [environmental accounts on the environmental goods and services sector](#) data series. While the export data is useful, it suffers from many of the classification issues discussed above. One immediate task would be to include import data as well as export data to give a more comprehensive picture of the UK’s participation in environmental goods and services supply chains. Additional work to incorporate the ongoing research into the ONS’ experimental services trade database for environmentally-related services would also prove useful.

### 27. Greening the UK’s Aid-for-Trade projects

As mentioned earlier in this paper, the UK has an opportunity to align its international development strategy with the objective of achieving a green trade strategy. As the UK previously had committed to ensure that environmental sustainability was a core component of DFID’s 2017 [Economic Development Strategy](#).

[Forthcoming work](#) from Carolyn Deere Birkbeck, Director, Forum on Trade, Environment & the SDGs, indicated that while Aid-for-Trade (AfT) represents around 25% of official development assistance, there is limited focus on its environmental aspects, green Aid-for-Trade financing falls far short of needs, and relevant sources of finance are poorly integrated. ODI has also [recommended](#) that the UK should “showcase how AfT can support the green transition and work with climate finance to build productive capacity and reduce economic and environmental vulnerabilities.” This work also highlights the need to align AfT projects with that country’s own Nationally Determined Commitments under the United Nations Framework Convention on Climate Change (UNFCCC) and should support for developing countries and least developed countries to participate in trade and environment initiatives.

At the time of writing, the Foreign, Commonwealth and Development Office (FCDO) was [consulting](#) on the UK’s new International Development Strategy. The UK should seize the opportunity to mainstream environmental sustainability through its future AfT projects and improve coordination between AfT and other climate-related development projects.

## FINAL CONSIDERATIONS

The trade department alone cannot achieve the UK's stated aim to be a global leader on green trade. Such an effort will demand the buy-in and cooperation of the entire UK Government as well as trading partners, international organisations, consumer groups and civil society. The UK Government will also have to go further than an enabling regulatory and policy environment. It will also need to work with companies looking to green their operations and embed sustainability as they work across suppliers, consumers, employees.

The authors have not covered many of the topics presented in this paper in great detail and some spend their entire careers dedicated to detailed research and analysis of the individual issues addressed here. Instead, they have attempted to set out a toolbox of the trade and regulatory policy areas that the UK should be engaging with and utilising in the development of its green trade strategy.

## FURTHER READING

In addition to the resources linked throughout this paper, there is a wealth of further reading for those interested in this topic. At the top of this list, we would include:

- [Greening International Trade: Pathways Forward](#) by Carolyn Deere Birkbeck
- [Can the UK Government be 'world-leading' in both trade and climate policy?](#) by Emily Lydgate and Chloe Anthony
- [How Trade Can Support Climate Action: A 2021 Agenda for the UK](#) by Queen Mary University and Trade Justice Movement
- [WTO Members Assess MC12 Options for Trade, Environmental Sustainability Work](#) by IISD
- [Delivering a Trade and Climate Agenda](#) by the World Economic Forum and Clifford Chance

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The views reflected in this article are the views of the authors and do not necessarily reflect the views of their respective employers.

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