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**BRIEFING PAPER** FEBRUARY 2022

## **DEFINING A POSITIVE GREEN TRADE AGENDA FOR THE UK: ALIGNING TRADE AND CLIMATE POLICIES TO DELIVER NET ZERO**

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There is a growing recognition that all economic policy, including trade policy, will need to play a role in the transition to net zero. However, the precise role of trade in helping to achieve net zero remains less well defined in comparison with other areas.

The UK is still developing its early trade strategy, having only gained an independent trade policy after leaving the EU. During the same formative time, the UK has also positioned itself as a climate leader, as an early adopter of a legally binding net zero target and the host of COP26.

However, this coincidence in timing has not resulted in policy coherence between the two agendas. Instead, the UK has been criticised for undermining its climate leadership through its approach to trade, for instance through its recent trade deal with Australia.

This briefing focuses on the intersection between trade and climate policy in the UK, with the aim of better defining a positive green trade agenda. Its recommendations are grouped into three areas, using trade policy: as a lever for climate action; to enhance cooperation; and to protect the right to regulate.



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## Introduction

To better align the UK's trade and climate agendas, it is necessary to begin by understanding where the two policy areas frequently interact, map out instances of policy coherence, and reinterpret coherent policy choices back in the context of the UK's existing net zero and climate leadership priorities.

There has already been a proliferation of reports seeking to define the green trade agenda, from key institutions like the World Economic Forum,<sup>1</sup> World Bank,<sup>2</sup> the IMF,<sup>3</sup> the UK's Board of Trade,<sup>4</sup> its equivalent in Sweden,<sup>5</sup> as well as others who have already contributed broader insights into how to develop the green trade agenda in the UK specifically.<sup>6</sup>

Throughout the literature it is possible to observe a tension between whether trade should be considered as a limiter or an enabler of climate action. The reality is that both dynamics are true, and that managing this tension is one of the core political choices present throughout the trade and climate agenda.

### Trade as a limiter of climate action

- > **Trade rules can limit climate policy options and regulatory space.** WTO case law limits domestic policy options in areas like green subsidies or preferences based on production methods (PPMs). The WTO requirement that policies be designed in 'the least trade-restrictive manner' creates uncertainty over potential legal challenges. Similarly, the current investment protection regime, including investor-state dispute settlement (ISDS) in agreements like the Energy Charter Treaty, contribute to a 'regulatory chill' effect.
- > **At the same time, these trade rules allow harmful policies to persist.** This includes fossil fuel subsidies, which are still estimated to total \$4.5 trillion per year.<sup>7</sup> Similarly, tariff and non-tariff barriers, as currently arranged, have been found to favour polluters over clean technologies – equivalent to an implicit subsidy of \$85 to \$120 per tonne of emissions.<sup>8</sup>

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<sup>1</sup> World Economic Forum (2021), *Delivering a Climate Trade Agenda: Industry Insights*.

<sup>2</sup> Brenton & Chemutai (2021), *The Trade and Climate Change Nexus*, World Bank Group.

<sup>3</sup> Parry, Black & Vernon (2021), *Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies*, International Monetary Fund.

<sup>4</sup> UK Board of Trade (2021), *Green Trade*.

<sup>5</sup> Swedish *Kommerskollegium* (2021), *Trade and Climate Change*

<sup>6</sup> Birkbeck (2021), *Greening International Trade - pathways forward*. Also Lydgate & Anthony (2020). *Can the UK Government be 'World-Leading' in both Trade and Climate Policy?* And Riddell & Lowe (2021), *Towards a Comprehensive UK Green Trade Strategy*.

<sup>7</sup> Parry, Black, & Vernon (2021).

<sup>8</sup> Shapiro (2020), *The Environmental Bias of Trade Policy*.

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- > **Trade can avoid accounting for environmentally harmful externalities.** Negative externalities include pollution, resource depletion, biodiversity loss and greenhouse gas emissions. Domestic policies like environmental taxes or production standards aim to internalise such costs into market prices. However, internationally traded goods may escape such requirements.
  - > **Differences of approach can give rise to competitiveness concerns.** An example of this is ‘carbon leakage’. This occurs when goods or services produced in a country with more stringent climate policies are substituted by imports from a less stringent country, raising total emissions. Businesses operating in less regulated countries benefit from a cost advantage over their international competitors, amounting to a kind of industrial subsidy.

### Trade as an enabler of climate action

- > **Trade can bring down costs and allow for specialisation.** Through being able to trade internationally, countries and companies can produce what they are best at, enhancing the global efficiency of production. For example, solar panel production led by China, supported by suppliers in Germany and the US, has caused a fall in costs by 90% in the past decade.<sup>9</sup> This has led to a decrease of solar-generated electricity prices of more than 80% in the UK.<sup>10</sup> Similar stories can be told about wind turbines and lithium-ion batteries.
- > **Trade can help transfer new technologies internationally.** By more freely sharing the technological advances and new knowledge required to advance the net zero transition, trade can enable other countries and particularly developing countries to ‘leapfrog’ more polluting stages of development.
- > **The international trade system provides a governance framework.** While sometimes imperfect, the international trade system does bring us closer to a ‘level playing field’ of common rules, norms, and minimum standards. Reform of the WTO system to better allow for advancing the net zero transition, potentially through a ‘climate waiver’, could be the optimal way to advance the transition by reforming the multilateral system.
- > **Current trade tensions may enable new forms of cooperation.** The current blockage at the WTO has lowered the risk of legal cases and given rise to new plurilateral and bilateral agreements. In the absence of multilateral negotiations, negotiations among smaller sets of like-minded countries may give rise to new and higher standards with global influence.

There are currently several promising plurilateral initiatives in the trade and climate space:

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<sup>9</sup> Goldthau & Hughes (2020), **Protect global supply chains for low-carbon technologies.**

<sup>10</sup> IRENA (2020), **Renewable Power Generation Costs in 2019.**

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- > **The Trade and Environmental Sustainability Structured Discussions (TESSD) at the WTO.** The TESSD gather more than 50 WTO Parties to discuss a broad agenda, ranging from trade-related climate measures to circular economy and subsidies. Ahead of the postponed WTO’s 12<sup>th</sup> Ministerial (MC12), the TESSD co-sponsored an agreement, gathering 70 signatories, including the US, the EU, the UK, and China.<sup>11</sup> The UK has been an active participant in the TESSD from the outset and should continue to engage constructively, considering strategic issues to bring to the table.
  - > **The Friends of Fossil Fuel Subsidy Reform (FFSR) at the WTO.** The FFSR agenda was rekindled around MC12, gathering 45 signatories committed to phasing out subsidies following a clear timeline. The EU and the UK newly committed to the agenda ahead of MC12. The UK should become an active participant in the discussions and lead by example, following the agreement reached at COP26 to phase out fossil fuel subsidies.
  - > **The Agreement on Climate Change, Trade and Sustainability (ACCTS).** ACCTS is a forward-leaning agreement, removing all tariffs on a wide list of environmental goods and services, reducing non-tariff barriers through eco-labelling and regulatory harmonisation, and addressing fossil fuel subsidies. The UK recently decided not to consider joining ACCTS citing issues around reducing negotiating leverage elsewhere.<sup>12</sup> This is clear example of the UK failing to prioritise the net zero agenda in its trade policy, instead favouring other “deals for the sake of deals”,<sup>13</sup> as this briefing will go on to discuss.

## Mapping trade and climate policy coherence

To help summarise these issues, below we offer two different ways of visualising the trade and climate nexus.

The first is a more conventional, issue-based presentation. The second covers many of the same topics, but in this case organises issues by sector of the economy. For some climate policy practitioners, it has become common to adopt a sectoral focus to allow for prioritisation, for instance based on greenhouse gas emissions intensity, or to make issue linkages. For many trade practitioners, however, this sectoral presentation may be more novel and therefore may offer new insights in support of defining a positive green trade agenda.

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<sup>11</sup> Arroniz & Peters (2021), [WTO MC12 postponed](#).

<sup>12</sup> Graham Lanktree (2021), [UK refuses to join trade pact to end fossil fuel subsidies, eliminate tariffs on green goods](#).

<sup>13</sup> Institute for Government (2017), [Taking back control of trade policy](#).



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**Table 1: Issue-based definitions**

<p><b>Climate action:</b> viewing trade policy as a lever to achieve climate goals</p> <p>Instances where trade policies can enable climate action include: by liberalising environmental goods and services; ending fossil fuel subsidies; through green export support; climate-aligned market access provisions; or due diligence regulation.</p>	<p><b>Compliance:</b> ensuring consistency of climate policies with trade rules</p> <p>An important feature of the trade-climate nexus is navigating the consistency of climate policies with trade rules, be those bilateral FTAs, plurilateral agreements or WTO rules.</p>
<p><b>Right to regulate:</b> including issues like investor-state dispute settlement</p> <p>Since trade rules can limit regulatory options, carve outs for achieving net zero are necessary. Examples include general exceptions or services and investment commitments; core environmental standards; and modernising investment protection and removing ISDS.</p>	<p><b>Competitiveness:</b> ensuring a level playing field, addressing potential carbon leakage</p> <p>Trade and competition policies are closely intertwined. Level playing field issues are therefore another key area of the trade-climate nexus, notably discussions of how to remedy potential carbon leakage – the offshoring of industrial activity or emissions.</p>
<p><b>International sectors:</b> accounting for the climate impact of trade</p> <p>International trade has its own climate impacts, particularly in the form of emissions from international aviation and shipping. Addressing emissions from these sectors through international agreements has notable overlaps with trade policy.</p>	<p><b>Methodology:</b> embodied carbon and consumption emissions</p> <p>Countries’ greenhouse gas emissions are generally accounted for on a territorial basis. However, global trade raises questions about how to account for the emissions associated with products imported from outside their territory of consumption.</p>
<p><b>Trade resilience:</b> including climate adaptation &amp; climate impacts on trade</p> <p>The resilience of international trade depends on resilient infrastructure. Adaptation and resilience to climate impacts is therefore a key pillar of the trade-climate nexus, particularly for engineering, construction, financial services, and risk management.</p>	<p><b>Cooperation:</b> consistency of trade policy with foreign and development policy</p> <p>Managing trade interdependence is deeply connected to foreign and development policy. Trade and investment policy choices are therefore inseparable from wider foreign policy goals. Climate diplomacy, capacity building, technical assistance, international climate finance, Aid for Trade, should all work coherently alongside trade policy.</p>



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**Table 2: Sector-based definitions**

	UK trade policy issues	International trade issues
<b>Energy</b> 	Ending fossil fuel subsidies, liberalising green goods and services, green export promotion. Electricity trading, enhancing North Sea Energy Cooperation. Modernisation of the Energy Charter Treaty, opposing new ISDS	WTO Fossil Fuel Subsidy Reform agenda and Trade and Environmental Sustainability Structured Discussions (TESSD). Linking trade and clean energy investment with phase out of fossil fuels and the Clean Green Initiative
<b>Transport</b> 	Ending fossil fuel subsidies. Consideration of import/export bans for combustion engine vehicles. Consideration of international bunker fuels taxation, in particular aviation fuel	WTO Fossil Fuel Subsidy Reform agenda and TESSD. COP26 Transport campaign. International aviation and shipping at the ICAO and IMO, cooperation on bunker fuels taxation, particularly aviation fuel
<b>Buildings</b> 	Reduction of tariff and non-tariff barriers on clean tech including heat pumps and sustainable materials. Embodied emissions, resource efficiency and circular economy	Trade-related aspects of sustainable heating and cooling including cooperation on product standards, for instance through the Clean Energy Ministerial
<b>Industry</b> 	Development of product standards or carbon border adjustments. Embodied emissions, resource efficiency and circular economy. Progress on UK-EU Emissions Trading Scheme linking	International cooperation on CBAMs, climate clubs, progress on industrial decarbonisation at the G7, as well as links back to Glasgow Breakthroughs
<b>Food and agriculture</b> 	Coordinated subsidy reform, development of core environmental standards. Addressing deforestation in global supply chains through due diligence regulation	Cooperation on greening agricultural subsidies and standards. Cooperation on deforestation-free supply chains through the COP26 FACT Dialogue



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## Context

Ahead of COP26, the UK successfully prioritised climate change as a foreign policy objective, backed up with new domestic policies. However, trade was largely absent from the UK's new initiatives, both domestic and international, with trade only featuring superficially on one page of the Net Zero Strategy.<sup>14</sup>

There were good reasons not to prioritise trade issues around COP26. Managing global climate politics already comes with significant challenges, before even considering adding difficult international trade politics. Developing countries have historically been quick to point out cases of 'green protectionism' in developed countries' climate policies. Indeed, competitiveness concerns are increasingly a factor in climate policy, particularly when it comes to addressing potential carbon leakage, as seen in the debate around the EU's Carbon Border Adjustment Mechanism (CBAM), which the UK was keen to avoid around COP26.

However, while the differing interests of developed and developing countries may be a common feature of international trade and climate politics, international trade politics is dominated to a much greater extent by the conflicting interests of the 'great powers' of the US, China and the EU. While President Biden's climate policy has departed significantly from President Trump's, the same cannot be said of his trade policy, which still retains strong anti-China framing. The Administration has also continued to delay restoring full dispute settlement powers to the WTO. One area where President Biden has returned to international cooperation has been to amend the transatlantic trading relationship, establishing the EU-US Trade and Technology Council and taking steps to resolve the dispute over steel and aluminium tariffs with the EU and UK.

While international cooperation on trade has fragmented, in contrast, the net zero agenda has become a point of commonality globally, with over 130 countries, including the US, China, EU, and India, committed to net zero.<sup>15</sup> Since the transition to net zero will require fundamental changes to all areas of the economy, trade policy will increasingly need to become part of the international climate agenda. As the first major economy to set a legally binding net zero target, it is in the UK's interests to take a leadership role in these discussions.

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<sup>14</sup> UK Government (2021), [Net Zero Strategy: Build Back Greener](#).

<sup>15</sup> Net Zero Tracker (2021), [Post-COP26 snapshot](#).



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## UK Context

The UK gaining an independent trade policy is often presented as one of the clearest new opportunities presented by Brexit. Success in the UK's early trade policy has been defined largely in terms of the quantity and pace of FTAs signed, coinciding with the 'rollover' process of replicating the FTAs the UK previously held as an EU Member State.

The near conclusion of the rollover FTAs process will inevitably impact how quickly the UK can sign new trade deals. This, in turn, will have an impact on the politics of trade in the UK, as the process of replicating existing trade deals makes way for approaching new and more contentious ones, and public scrutiny increases.

**Table 3: Prospective UK FTAs, beginning 2022.<sup>16</sup>**

Trade partner	Status
Australia	FTA signed
New Zealand	Agreement in Principle
Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)	Negotiations ongoing, UK aiming to conclude by end of 2022
United States	Negotiations stalled, initiated under Trump Administration
India	Negotiations opened in 2022
Canada	Under discussion, to update existing UK FTA following new EU-Canada deal
Mexico	Under discussion, to update existing UK FTA following new EU-Mexico deal
Gulf Cooperation Council (GCC)	Under discussion, UK aiming to begin in 2022

As the case of the UK's FTA with Australia has already demonstrated, there is a strong public interest in upholding climate standards in the UK's trade deals and an increasing recognition that the UK's current trade strategy risks contradicting its international climate strategy.<sup>17</sup>

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<sup>16</sup> UK Parliament (2022), [Progress on UK free trade agreement negotiations](#).

<sup>17</sup> Harvey & Hurst (2021), [UK criticised for 'dropping Paris climate goals in trade deal with Australia'](#).

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### Box 1: UK-Australia FTA, undermining UK climate leadership?<sup>18</sup>

Criticism of the UK-Australia FTA from a climate perspective can be summarised along two lines: (1) on the substance of the deal, and (2) how the UK's strategy around the deal undermines its climate leadership.

On the substance, criticism was sparked by leaks showing that UK Ministers backed down on their climate asks in the negotiations, including references in the deal to the temperature goals of the Paris Agreement.<sup>19</sup> This is despite the UK conceding significant prized market access to Australian agricultural exports, where standards are lower, which the UK could have leveraged more.

On the strategy, given the UK's COP26 Presidency, more could have been done to leverage trade talks to improve Australia's stance in Glasgow, where its approach was otherwise to do "as little as possible", by not putting its net zero commitment in law, failing to enhance its NDC, or sign up to UK-led initiatives like the Coal to Clean Power statement.<sup>20</sup> The absence of a UK strategic approach led to missed opportunities and Departmental in-fighting.<sup>21</sup>

In the face of growing public interest for the UK to prioritise its climate interests in future trade deals, **developing a credible offer on climate change to include both in the UK's future FTAs, but also through accompanying side deals, will therefore become a greater political necessity for the UK in future.**

The UK-EU Trade and Cooperation Agreement (TCA) offers a positive example of how climate commitments can feature in and around the UK's FTAs. In the TCA, the Paris Agreement features as an essential element, meaning that if either side backtracks on their Paris Agreement commitments the whole deal could fall. The TCA also commits the UK and the EU to consider linking their Emissions Trading Schemes (ETS) and to cooperate via the North Seas Energy Cooperation forum.

However, owing to continuing political challenges, neither exploring UK-EU ETS linking nor North Seas Energy Cooperation have been implemented to date,

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<sup>18</sup> Gwen Buck (2021), [The Australia deal shows the UK is happy to compromise climate goals for trade](#).

<sup>19</sup> Sam Coates (2021), [Exclusive: Ministers bowed to pressure to drop key climate commitments for UK trade deal with Australia](#).

<sup>20</sup> Dobson & Cahill (2021), [Australia's dismal climate record comes under COP26 spotlight](#).

<sup>21</sup> Foster & Parker (2021), [UK Government split over Australia trade deal](#).



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meaning the real economy and net zero benefits of the TCA have not been gained. By more clearly prioritising climate in the UK's trade strategy, these benefits could be better weighted against other political issues. **Implementing these trade and climate priorities would offer clear pathways towards a more collaborative UK-EU relationship, unlocking benefits elsewhere in the UK's wider diplomatic strategy.**

## UK trade politics and governance: lacking a strategy

The UK still lacks a defined trade strategy. One of the main risks of this is descending into pursuing “deals for the sake of deals” and overlooking vital connections back to UK's wider economic strategy, including the tax regime, regulatory environment, labour market and net zero agenda.<sup>22</sup>

In the absence of a trade strategy, the UK risks entrenching political and governance issues to the detriment of wider economic goals, including the net zero agenda:

- > **Emphasising quantity over quality.** Without a clear sense of what the UK wants from its trade policy, there is a risk of prioritising speed and quantity at the expense of quality in its trade deals, as already discussed with reference to the Australia FTA. The Government's manifesto commitment to cover 80 percent of UK trade with FTAs in three years is an example of arbitrary target setting which, without a US trade deal, it is unlikely to achieve.
- > **Failing to manage divergence from the EU.** At the ‘rollover’ stage of the UK's FTAs, its approach did not depart significantly from the EU's. As the UK starts to approach new trading partners, it will become increasingly necessary to take a considered view about what to do differently and what its priorities are. Upholding environmental principles, like the precautionary principle which now features in the Environment Act, should act as a reference point. The Northern Ireland Protocol and preserving the Single Electricity Market is also a reference point, with implications for the UK ETS. Implementing UK-EU ETS linking under the TCA would unlock options for regulatory cooperation elsewhere and could also be used to negotiate a UK exemption from the EU's CBAM. If the UK proceeds without a considered view on how to manage divergence from the EU, it risks missing opportunities, or worse, falling foul of the non-regression principles in the TCA.
- > **Narrow political focus.** A focal point for the development of the UK's early trade strategy has been the rebranded UK Board of Trade, which has in practice acted as an extension of the political leadership of the Trade

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<sup>22</sup> Institute for Government (2017), *Taking back control of trade policy*.



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Department (DIT). In 2021, the Board published a report on green trade which leaned heavily on free market principles to argue for the role of trade in promoting green exports and diffusing green technologies. While the Board of Trade made some constructive suggestions, its political leanings give the report a narrow focus and overlooks the regulatory aspects of trade policy, including topical issues like consumption emissions, carbon border adjustments, due diligence regulation, and ISDS.<sup>23</sup>

- > **Entrenching siloes in Government.** DIT was established in 2016 alongside the Department for Exiting the European Union (DExEU) to deliver on the immediate requirements of Brexit. The UK's machinery of Government has since evolved to manage EU relations and, with the establishment of the Cabinet Office COP26 Unit, also adapted to the resourcing requirements of COP26. In contrast, the management of the UK's wider trading relations still largely follows structures established in 2016. The UK's governance of climate policy has evolved significantly over the same period, including through the establishment of Cabinet Committees and a senior official National Strategy Implementation Group. The delivery of COP26 and the UK's net zero agenda resembles a cross-Government effort, whereas trade policy has become siloed. To develop a positive green trade agenda, **the UK must better incorporate trade into its climate governance structures, as well as overhaul its trade governance, including by making climate change a priority for its Global Britain Cabinet Committees.**

## COP26: Lessons for greening the UK's trade policy

The UK undertook a detailed exercise of establishing its climate change priorities for COP26, which culminated in setting four goals as well as advancing a list of sectoral campaigns.<sup>24</sup> While trade did not feature as a specific item among these priorities, it is possible to draw out multiple trade-related lessons from across these priorities which can then be used to develop the intersection of trade and climate policy for the UK.

### COP26 multilateral outcomes – lessons for UK trade policy

As the COP26 Presidency, the UK understandably needed to prioritise steering the multilateral process of the UNFCCC alongside its more targeted objectives for the Summit. This unique experience offers some lessons for how to manage trade and climate policy issues in future:

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<sup>23</sup> Thornberry (2021), **Truss 'Green Trade' Report an abdication of global leadership, says Labour.**

<sup>24</sup> UK Government (2021), **COP26 outcomes.**



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- > **Safeguarding the multilateral process** – the headline success of the Glasgow Pact was its demonstration that the multilateral process was working. Despite the challenging global political landscape, 197 countries came together in Glasgow to reaffirm the Paris Agreement’s goal to limit global warming to 1.5°C while also committing to raising their Nationally Determined Contributions. After COP26, it is in the UK’s interests to act as an advocate for the multilateral system and champion the need to ensure the Paris Agreement consistency of trade policy.
  - > **Fossil fuel subsidies** – from a trade perspective, one of the most significant commitments detailed in the Glasgow Pact itself was the commitment to phase out fossil fuel subsidies. Fossil fuel subsidy reform has regularly featured in discussions at the WTO. Since Glasgow, these discussions have been rekindled, with over 45 countries signing up to the Friends of Fossil Fuel Subsidy Reform’s statement at the WTO’s postponed 12<sup>th</sup> Ministerial Meeting (MC12), notably including the UK and the EU. Going forward, the UK should champion the issue of fossil fuel subsidy reform at the WTO and in other fora like the G20, and lead by example by undertaking a Treasury-led review of the role of tax policy in delivering net zero.<sup>25</sup>
  - > **Global carbon markets** – alongside the Glasgow Pact, the next most significant multilateral outcome from COP26 was the conclusion of negotiations on the Paris Agreement rulebook and, particularly from a trade perspective, the agreement on Article 6 on global carbon markets. After COP26, the UK should continue to advocate for carbon pricing internationally and link any future bilateral or plurilateral discussions back to robust global carbon market rules

### **COP26 campaign outcomes – lessons for UK trade policy**

Alongside the multilateral negotiations, the UK pursued a range of thematic priorities at COP26, several of which can offer lessons for how the UK could conduct its trade and climate diplomacy in future:

- > **Country Partnerships model** – the South Africa Just Energy Transition Partnership agreed at COP26 has been described as a gold standard which could be used as a model for future packages that could be agreed with other major emitters from the G20, potentially beginning with Indonesia and India. From a trade and investment perspective, important lessons can be learned from the country partnerships model around how to strategically incorporate international climate finance programmes into package deals to leverage increased climate commitments from partner countries. As the UK looks ahead to bilateral trade discussions with India and other G20 countries, the

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<sup>25</sup> UK Climate Change Committee (2021), *COP26: Key outcomes and next steps for the UK*.



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UK should view these opportunities holistically and prioritise country partnerships as a model for potential side agreements to compliment bilateral FTAs, as well as exploring synergies with its Clean Green Initiative. The success of the South Africa model at COP26 came from catering to its pressing just transition concerns around retiring its coal fleet. Other prospective country partnerships would similarly need to cater to their specific political economy contexts.

- > **Export finance for fossil fuels** – the campaign to gather countries together committing to end their international public financing of fossil fuels is the best direct example from COP26 of trade policy – in this case export promotion – being strategically reformed in favour of climate action. Lessons can be learned from this example of how unilateral trade policy decisions can be coordinated internationally in favour of increased climate action. Looking ahead, the UK should further prioritise its export promotion of clean technologies, as well as continuing to coordinate the growing international consensus in favour of eliminating public finance for fossil fuels.
- > **Deforestation** – COP26 made headlines with its Leader-level commitment to ending global deforestation by 2030, backed up with significant funding. For this initiative to succeed where other voluntary deforestation initiatives have failed, reforms to trade policy will be essential. The UK’s Forest, Agriculture and Commodity Trade (FACT) Dialogue, also launched around COP26, provides an ideal framework through which to coordinate future international discussions in this area. The EU has since come forward with ambitious proposals to use due diligence regulation in its trade policy to combat deforestation from key agricultural supply chains such as soy, cocoa, and palm oil. Based on the Environment Act, the UK should implement a similar approach, using the framework of the FACT Dialogue to gather international consensus around how to design such measures inclusively.
- > **Zero Emission Vehicles** – the UK made accelerating the global transition to Zero Emission Vehicles (ZEVs) one of its COP26 Presidency priorities, establishing the ZEV Transition Council as an international forum through which to continue discussions after Glasgow. Trade policy was largely absent from initial discussions at the ZEV Transition Council. However, as countries, including the UK, start to consider how to enforce their commitments to phasing out internal combustion engine vehicles, trade policy presents itself as a potential tool for consideration, including forms of import or export bans to prevent combustion engine vehicles entering markets, such as the UK’s, with phase-out commitments, or to prevent dirty vehicles from being dumped on emerging markets. Measures like import or export bans are often divisive and would therefore benefit from careful and proactive discussions through fora like the ZEV Transition Council.



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## Recommendations

Based on this assessment of the current UK, international, and COP26 legacy contexts, it is possible to define a positive green trade agenda for the UK in three key areas, using trade policy: as a lever for climate action; to enhance cooperation; and to protect the right to regulate.

### Trade as a lever for climate action

As discussed in this briefing's opening chapter, there are certain clear instances where trade can leverage increased climate action, for instance by liberalising environmental goods and services or facilitating the phase-out fossil fuel subsidies, as well as by leveraging increased climate action from trade partners.

Specific options include:

- > **UK leadership in key international trade and climate discussions** – particularly the WTO's Trade and Environmental Sustainability Structured Discussions (TESSD) and Friends of Fossil Fuel Subsidy Reform. As the UK scales up these activities, it should reconsider joining the Agreement on Climate Change, Trade and Sustainability (ACCTS).
- > **Adopting a sectoral perspective to identify new areas for action** – by adopting a clear strategic approach, aligning the UK's trade policy with its net zero agenda, and by making trade policy more of a cross-Government effort, the UK could consider enhancing its regulatory approach to trade, for instance through market access provisions or product standards in the transport, buildings, or industrial sectors, or by going further in its due diligence regulation to enforce deforestation-free trade.
- > **Approaching FTAs in alignment with the UK's international climate strategy** – this takes two forms. Firstly, in the substance of new FTAs, by prioritising robust Paris Agreement commitments and enforceable, goal-oriented Trade and Sustainable Development chapters. Secondly, alongside new FTAs, the UK should promote side deals or announcements with partner countries to leverage increased climate action, along the lines of the country partnerships model advanced at COP26.

### Enhance cooperation

Much of the trade and climate agenda involves managing complexity, for which increased international cooperation is essential. As discussed in this briefing's COP26 section, the UK now has a positive track record of leading positive global initiatives while ensuring consistency with the multilateral system.

The UK should extend this work to its trade policy by:

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- > **Developing the UK's climate diplomacy and trade offer** – trade and climate issues are increasing in profile internationally following initiatives like the EU-US brokered global green steel deal or the German proposal for a climate club at the G7. It is in the UK's interests to shape these discussions, using its experience of the COP26 Presidency to ensure the consistency of these initiatives with the multilateral system and developing country interests, linking back to the UK's wider international development policy.
  - > **Prioritising the inclusive design of UK trade and climate policies** – when considering issues like carbon border adjustments, product standards, or due diligence regulation, the UK should consider developing country concerns, Paris Agreement and WTO compliance as priorities throughout the policy design process. The UK should be prepared to offer technical assistance to developing countries when introducing new standards and should consider support through international climate finance or technology transfer projects.
  - > **Proactively implement UK-EU TCA net zero priorities** – particularly by progressing discussions on linking the UK and EU Emission Trading Schemes, unlocking a potential UK exemption to the EU CBAM, and increasing collaboration through the North Seas Energy Cooperation forum.

### Protect the right to regulate

As set out in this briefing's opening chapter, there are instances where trade can act as a limiter rather than an enabler of climate action. The UK should ensure that its trade deals come with safeguards that protect its ability to introduce legitimate climate policies in future.

In this respect the UK should:

- > **Oppose the inclusion of investor-state dispute settlement provisions in future trade deals,**<sup>26</sup> and adopt a proactive stance on the modernisation of the Energy Charter Treaty. The UK should seek opt outs from ISDS where necessary, for instance in ongoing negotiations to join CPTPP.
- > **Carve out future regulatory space to deliver net zero,** for instance by developing the UK's use of general exceptions provisions or services and investment commitments in FTAs,<sup>27</sup> or by developing core environmental standards.<sup>28</sup>

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<sup>26</sup> Aldersgate Group (2020), *Aligning the UK's Trade Policy with its Climate and Environmental Goals*

<sup>27</sup> New Zealand Ministry of Foreign Affairs & Trade (2021), *Preserving our right to regulate*

<sup>28</sup> Baldock (2020), *Environmental standards for UK agriculture in a new trade policy framework*

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## About E3G

E3G is an independent European climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at [www.e3g.org](http://www.e3g.org)

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