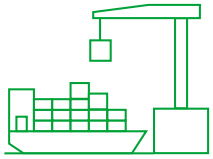
Executive summary

Trade has an important role to play in the global response to climate change, providing economies with tools to draw on in their efforts to mitigate climate change and to adapt to its consequences.

A range of trade policy tools are available to speed up progress towards climate goals under the Paris Agreement. Some key tools are outlined below.



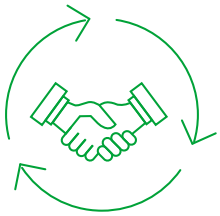
#1 Trade facilitation

Speed up customs clearance, reducing GHG emissions associated with inefficient customs procedures and road freight by adopting trade facilitation measures.

Reducing waiting times at the border and streamlining inefficient customs procedures can help reduce emissions associated with trade, especially as trade volumes continue to increase.

Implementing trade facilitation measures, such as the use of electronic documentation, can help to reduce border control delays and related energy consumption, leading to reductions of up to 85 per cent of emissions at certain land border crossings. The digitalization of paper-based trade processes could also reduce waste and lower associated emissions by as much as 63 per cent per invoice.

The WTO's Trade Facilitation Agreement (TFA), which entered into force in 2017, aims to simplify, harmonize and expedite customs procedures and border controls between trading partners. It is expected to reduce trade costs by an average of 14.3 per cent with the biggest gains in the poorest economies. Currently, the rate of implementation of TFA commitments by WTO members stands at around 77 per cent, but the figure is much lower in poor economies, which would benefit the most by speeding up implementation.



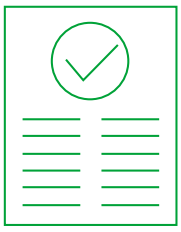
#2 Government procurement

Drive lower carbon emissions by using government procurement as a tool.

Government procurement of goods and services accounts for approximately 13 per cent of world GDP (around USD 13 trillion per year). However, it is estimated to be directly or indirectly responsible for 15 per cent of GHG emissions. Government procurement systems usually mandate cost-effectiveness but only in some cases do they mandate climate change considerations.

Greater emphasis on so-called green government procurement (GGP) policies can significantly reduce GHG emissions while producing major economic benefits, such as new green jobs and enhanced energy efficiency. For example, governments could revise their domestic procurement policies to include climate-sensitive criteria, such as science-based, low-carbon requirements in tenders. They could also make such criteria not just optional but mandatory.

Various WTO members are already introducing low-carbon considerations into government procurement. The WTO's Environmental Database reveals that members have notified to the WTO over 70 environment-related government procurement measures since 2009, with the aim of promoting environmental goods and services, energy conservation, climate change mitigation and adaptation, and renewable energy.



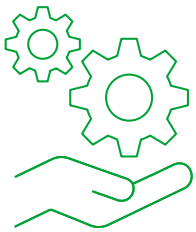
#3 Regulations and certification

Use international standards to avoid regulatory fragmentation when upgrading energy efficiency regulations.

The growing number of energy efficiency requirements for consumer goods, such as electric vehicles or household appliances, can help to reduce domestic energy consumption and related GHG emissions by excluding the most polluting goods from the market. Energy efficiency regulations have already reduced annual energy-related emissions by 12 per cent in the 2000-17 period (IEA, 2021a). However, different methodologies across the world for calculating the energy efficiency of goods can increase compliance costs for producers and exporters.

WTO rules and committees, such as the Committee on Technical Barriers to Trade, help to promote coherent regulations and alignment with international standards, including for the measurement of carbon emissions embodied in traded goods or energy efficiency. Adherence to these principles can minimize regulatory costs and duplication while helping achieve climate action goals. Through committee discussions, WTO members have contributed to increasing regulatory convergence on energy efficiency, advancing cooperation on climate-related challenges.

Since 2009, over 1,180 energy efficiency and conservation regulations have been notified to the WTO by over 70 WTO members. Most of the regulations target commercial appliances, industrial equipment, household appliances and other materials.



#4 Services

Accelerate mitigation efforts, support adaptation and assist disaster recovery by reviewing domestic regulations and restrictions for providers of climate-related services.

Services related to low-carbon technologies – for instance, installing, monitoring, and maintaining these technologies – are often as important as the goods themselves. Similarly, cross-border provision of insurance, telecommunications, logistics, health and weather forecasting services can help economies prepare for climate-related crises. At present, there is significant scope to improve the conditions for trade in services relevant to climate mitigation and adaptation.

Taking prompt action to review and reduce restrictions – including in the form of streamlined domestic regulations – to trade in key services related to climate mitigation and adaptation can support governments' climate action strategies. To better respond to extreme weather events, economies could, for example, facilitate the recognition of professional qualifications of foreign service providers of relief services and reconstruction, in a manner compatible with WTO rules. The temporary movement of certain categories of technical experts, such as climate mitigation and adaptation specialists, to supply services abroad could be facilitated by the WTO's General Agreement on Trade in Services.

Since 2009, WTO members have submitted 12 climate-related notifications to the Council for Trade in Services. In addition, 51 WTO members have included climate-related information regarding their services sector in their Trade Policy Reviews, covering topics such as preferential market access for climate-related service providers to low-carbon requirements for services.

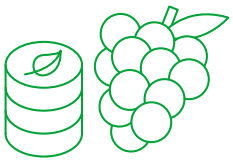
#5 Import tariffs

Help accelerate the transition to a green economy by rebalancing tariff policies that may inadvertently benefit carbon-intensive sectors.

Current import tariffs tend to be lower in carbon-intensive industries than in clean industries. Key fossil fuels, such as crude oil and coal, face average applied tariffs of 0.8 and 1.6 per cent respectively in the top ten importing markets while renewable energy equipment faces average tariffs of 3.2 per cent, with some members applying tariffs as high as 12 per cent. In the automotive sector, low-carbon vehicles exported to major markets face applied tariffs that are 1.6 to 3.9 percentage points higher than for conventional combustion vehicles.

Import tariffs could be reviewed with a view to promoting the affordability and uptake of products such as renewable energy equipment and electric vehicles needed for the transition to a low-carbon economy. Rebalancing tariffs by even a relatively small number of percentage points could make an important contribution to reducing renewable energy costs and increasing the uptake of low-carbon technologies.

Some economies and regions have already started exploring the option of revising tariff levels. According to the WTO Environmental Database, at least 30 WTO members from all regions and levels of economic development have used tariff reductions for environmental purposes. WTO members' Trade Policy Reviews reveal that these are mostly for renewable technologies, followed by low-carbon and electric vehicles.



#6 Subsidies

Unlock additional resources to assist climate action by reforming environmentally harmful support measures.

Governments' support measures, such as subsidies, can help correct market inefficiencies and enhance social welfare. At the same time, if not well calibrated, they can distort production and trade, reduce economic efficiency, exacerbate negative spillovers and damage the environment. This is relevant for sectors including in fossil fuels, agriculture, fisheries, transport and water supply. It is estimated that governments spend USD 1.2 trillion a year on potentially environmentally harmful subsidies (World Bank, 2023).

Reforming and repurposing subsidies could offer substantial environmental benefits. It is estimated that reforming fossil fuel subsidies by 2025 would reduce CO_2 emissions by an average of 6 per cent by 2030. Reinvesting just a third of these savings into energy efficiency and renewable energy could lead to an additional 3 per cent reduction in CO_2 emissions (IISD, 2022). Improving understanding of the environmental impacts of existing subsidies could help to identify the priorities for reform.

WTO members in 2022 demonstrated how this can work in practice, when they reached a landmark agreement to curb USD 22 billion in annual public spending on harmful fisheries subsidies that encourage illegal, unreported, and unregulated fishing, fishing overfished stocks and fishing in the unregulated high seas. This will free up resources that can be put to better use. A second phase of these negotiations is ongoing to additionally reduce subsidies to overcapacity and overfishing.

As the global community seeks to increase climate financing, especially to support developing economies' quest for a just transition, repurposing environmentally harmful and market-distorting subsidies can be a win-win for people and the environment.

#7 Trade finance

Support the diffusion of climate-related technologies and equipment by facilitating and increasing trade finance, such as loans and guarantees.

Some 60 to 80 per cent of world trade relies on trade finance, such as trade credit and insurance/guarantees, to help goods flow smoothly around the world. However, the supply of trade finance meets demand in only a few regions, with many small and medium-sized enterprises (SMEs) and women-led businesses unable to gain access to finance. In some regions, such as West Africa and the Mekong region, no more than 25 per cent of trade is supported by trade finance. Recent studies show that raising this trade coverage to 40 per cent would increase annual trade flows by 8 per cent on average (WTO and IFC, 2022; WTO and IFC, 2023).

Information on the trade finance gap between demand and supply for climate-related goods is limited but it is probably of a similar nature to the overall trade finance gap and should be closed to increase trade in products and technologies needed for the transition to a low-carbon economy. It is important that private banks, regional development banks and other institutions enhance their existing efforts to mobilize resources to increase trade finance programmes. One way they can do so is to join forces to develop risk-sharing frameworks that support trade in the products underpinning the energy transition.

The flow of trade finance could be enhanced by building the capacity of local lenders, strengthening banking relationships, improving access for SMEs and women-led businesses, and aiding decision-making through better quality data. These measures require coordinated action by relevant financial institutions, national policymakers, regulators and international organizations.

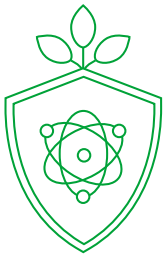
#8 Food and agriculture trade

Improve how food and agricultural markets function, while contributing to climate action, by easing trade in food.

Trade already plays a key role in global food security. One in every five calories consumed around the world - and possibly as many as one in four - is traded (OECD-FAO, 2022). As climate change deeply affects agricultural yields, this role will only increase, with trade helping food flow predictably and smoothly from where it is abundant to where it is needed. A variety of trade policies affect trade in food, such as import tariffs, subsidies and export restrictions. The weighted tariff average that governments applied to imports of agricultural goods was 6.2 per cent in 2021, but tariffs on some products can be prohibitive, at times even exceeding 1,000 per cent. In addition, farm subsidies can distort markets, contribute to increased carbon emissions, and encourage inefficient or unsustainable use of resources. OECD data indicates that USD 630 billion per year on average was provided in support to individual producers in 2020-22 (OECD, 2023). A significant amount of this spending could be repurposed to support climate adaptation and mitigation.

More open, fair and well-functioning global markets for food and agricultural products can play a critical role in shaping and assisting climate action, strengthening global food security, and reducing price volatility for food and fertilizer. WTO agreements by providing a stable and transparent framework for agriculture trade help in this regard. Prompt information-sharing about policies affecting trade would support the resilience of global markets for food and agricultural products.

Agriculture and forestry account for over a fifth of global greenhouse gas emissions (IPCC, 2023). There is scope to lower emissions related to farm production and trade by changing agricultural practices and land use patterns. Paired with coordinated climate action, trade could also contribute to reducing the sector's carbon footprint by allowing economies to specialize more in foods they can produce with a relatively low carbon footprint.



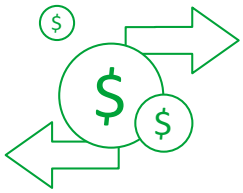
#9 Sanitary and phytosanitary measures

Protect economies from the spread of disease and pests exacerbated by climate change by strengthening sanitary and phytosanitary systems.

Extreme weather events, droughts and rising temperatures are altering the global prevalence of pests and diseases, affecting agricultural output and contributing to greater food safety risks. Plant pests alone are estimated to cause losses of up to 40 per cent of crop production, costing the global economy more than USD 220 billion annually. The impact of climate change on animal health is likely to be considerable, including through the spread of vector-borne diseases, such as bovine fever.

To protect people from new pest and disease risks linked to climate change, it will be important for governments to adopt strategies and policies that strengthen SPS systems to safeguard plant and animal health. At the same time, it is critical to ensure that producers in vulnerable economies suffering from the impacts of climate change are equipped to meet these new SPS standards, so that they do not end up shut out of key export markets.

Adherence to the WTO's SPS Agreement can help ensure that new SPS measures introduced in the context of climate change remain anchored in science and follow international standards, guidelines and recommendations. Since 1995, WTO members have notified more than 33,000 measures to the SPS Committee. Most of these were adopted to protect food safety, ensure animal health and plant protection, and protect humans from animal or plant pests and diseases.



10 Internal taxation and carbon pricing

Reduce policy fragmentation and compliance costs by improving coordination of climate-related, non-discriminatory internal taxes, including carbon pricing and equivalent policies.

Carbon pricing, such as taxes on carbon-intensive goods, can be an effective tool in reducing global GHG emissions. Two thirds of all nationally determined contributions (NDCs) submitted by governments to achieve emission reduction targets under the Paris Agreement consider the use of domestic carbon pricing schemes. However, the proliferation of such schemes – according to the World Bank, over 70 carbon pricing systems already exist globally, with varying coverage and prices ranging from less than USD 1 to more than USD 130 per tonne of CO_2-equivalent – can raise administrative and compliance costs for exporters, particularly for SMEs.

Coordination of internal taxes, including carbon pricing, can be achieved through various international platforms. The "Global Stocktake" at COP28 is a key opportunity for governments to review their internal taxation policies and seek better alignment. By facilitating exchange of best practices, international cooperation can contribute to improving the efficiency of carbon pricing schemes and reducing their administrative costs. Cooperation can also pre-empt trade tensions and accusations of protectionism in

relation to carbon pricing policies, and ensure all views and concerns, including those of developing economies, are taken into account in discussions on carbon pricing and other approaches to reducing emissions.

The WTO's Environmental Database shows that at least 57 WTO members from all levels of economic development have used internal taxes for environmental purposes. The Trade Policy Reviews of these economies provide dozens of examples of internal taxation schemes adopted for climate-related objectives, mostly concerning the energy sector, manufacturing and the chemicals sector.