

Trade related climate measures and their impact on small businesses in developing countries

Exploring challenges, opportunities and Aid for Trade needs

Presentation to TESSD

Monday 20th November 2023

The role of the International Trade Centre



Joint agency of the United Nations and the World Trade Organization. Established in 1964 in Geneva, Switzerland.

Our contribution to the UN Global Goals

ITC directly contributes to 11 of the United Nations Sustainable Development Goals.
ITC financial delivery distribution by SDG in 2021



Our mission

We improve lives through sustainable trade

We help small businesses in developing countries go global through trade by building inclusive, sustainable and prosperous economies.

TRCMs: evolving landscape

Increasing number of *standards, regulations and policies* are seeking to drive *sustainability improvements* in supply chains.

These range from environmental issues and GHG emissions to social human rights considerations.

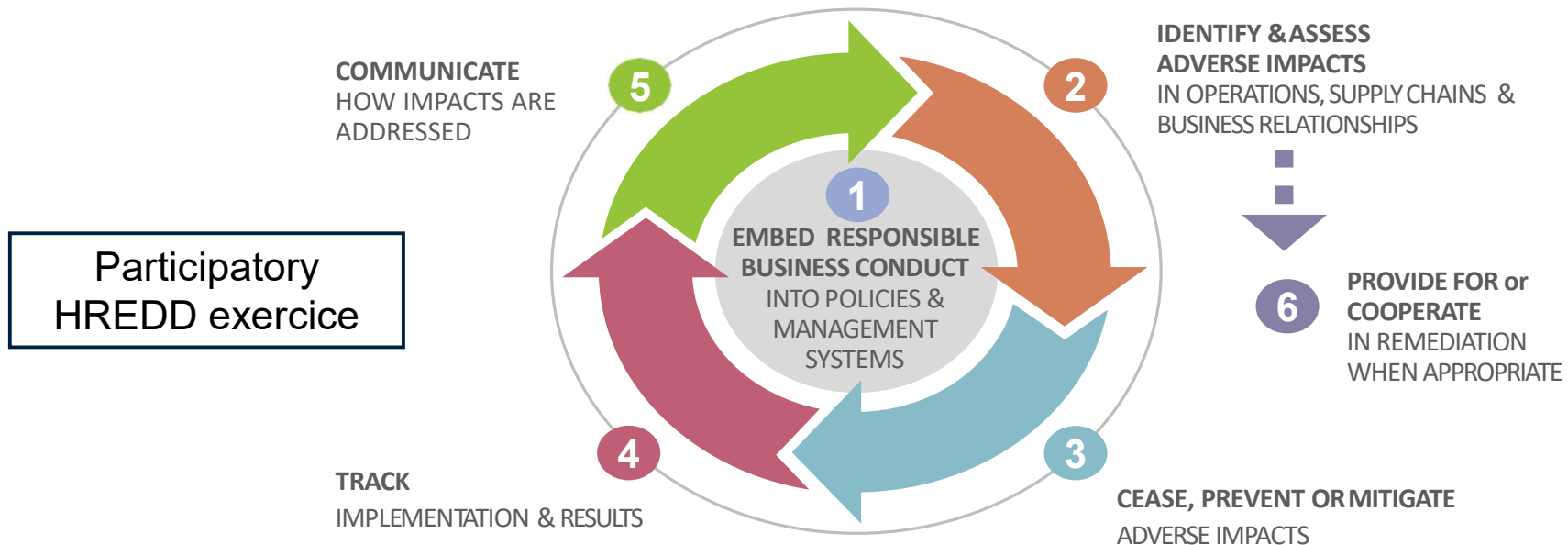
All have *direct and indirect impact* on MSMEs who may lack the technical, managerial and financial capacity to respond.

There may be *opportunities for MSMEs* to create value and improve competitiveness.

Role for AfT to provide Accompanying Measures to build capacity in terms of soft infrastructure (e.g. traceability and GHG emissions reporting), engage in dialogue and facilitate investment in resilience.

Case study 1: mandatory Human Rights and Environmental Due Diligence (mHREDD)

How does Human Rights and Environmental Due Diligence work?



Source: adapted from OECD Due Diligence Guidance for RBC



UN Guiding Principles on Business and Human Rights



Organization for Economic Cooperation and Development Guidelines on Responsible Business Conduct



ILO Multinational Enterprise Declaration and Decent Work Agenda

Pilots on mandatory Human Rights and Environmental Due Diligence (mHREDD)

Convene inclusive collaborations between value chain operators & stakeholders on the practicalities of implementing mHREDD. Surface ideas, innovations, policies, tools that will help all actors operationalise mHREDD.

The pilots are 'case-studies' on performing the mHREDD process **in practice**, thus:

- ✓ Generated a space for dialogue and a collaboration infrastructure for the industry (or selected VC) around Human Rights and Environmental DD
- ✓ Provided a practical example to stakeholders
- ✓ Identify opportunities, gaps and challenges of the CS3D in practice. These can then feed back into the design of new and existing EU and MS AMs (e.g. e-learning module, one stop shop etc.), using the 8 categories of AMs
- ✓ Support VC actors to define a commonly agreed VC based action plan with defined roles and responsibilities
- ✓ Leverage co-investment and action by each party for the implementation
- ✓ Embed process in local institutions and VC operators is also key for replication and scale
- ✓ Share & Learning built in as an objective from the start with participation of International and EU bodies → feedback loops

Case study 2: Deforestation-free Global Value Chains

Deforestation-free Global Value Chains

Five rounds of Roundtables held from March 2022 until June 2023:

- Round 1: Producing countries considerations to deforestation-free products
- Round 2: Industry responses to deforestation: methodologies & approaches
- Round 3: Policy implications of the proposed EU regulation on deforestation-free products
- Round 4: Paving the road for deforestation-free global value chains
- Round 5: Towards implementation of Deforestation-free Global Value Chains

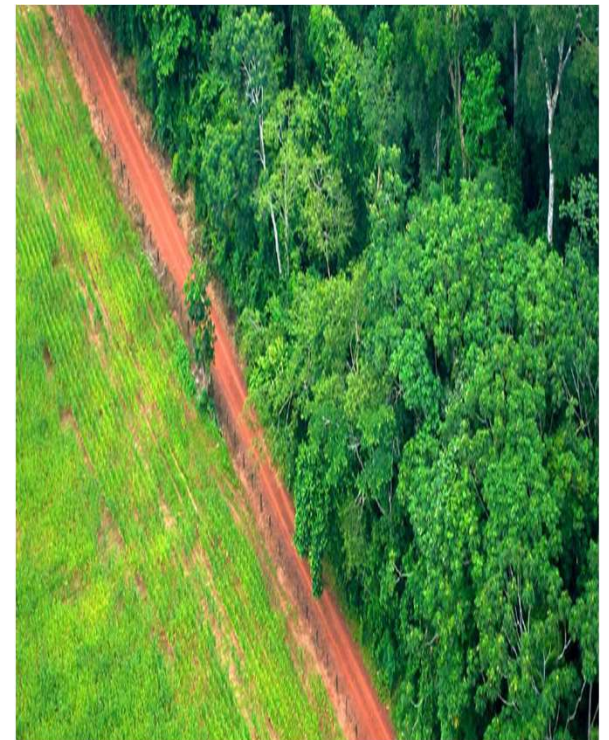
Readouts, recordings and further details on our website:

<https://sustainabilitygateway.org/deforestation-roundtables/>



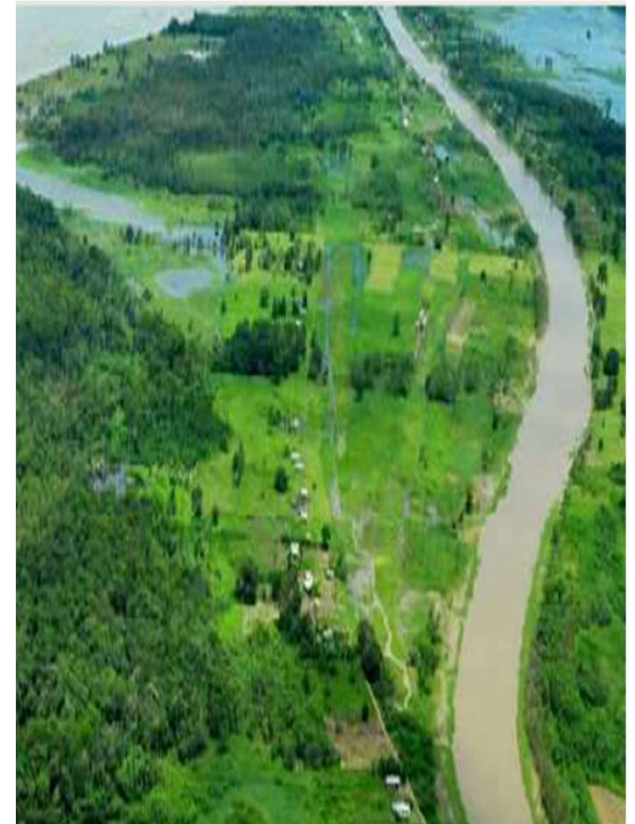
ITC Roundtables: Key messages

- Business as usual is NOT an option, change requires time and resources and should leverage existing approaches.
- Legislation is welcome, but it needs to be “the right” legislation. There needs to balance scale & impact locally and robust governance. Central legislation cannot be implemented locally. Define the “what” – we [local stakeholders] can achieve the “how”, one-size-fits-all approaches will not work.
- Trade requirements are necessary but need to enable countries to implement adherence to health, safety, environmental needs and more.
- Ensure support / technical assistance to MSME.



Key messages (continued)

- Poverty is one of the biggest root cause of deforestation, therefore lifting small producers out of poverty is a fundamental need.
- Integrated options are needed to achieve the right outcomes and ensure a practical and achievable approach.
- Traceability needs a landscape approach and monitoring of unintended consequences (trade diversion).
- Collaboration across the entire value chain critical, there needs to be shared responsibility and accountability and alignment of private and public standards is needed.
- Governments, DFIs and multilaterals, need to provide sufficient resources.



Effective and inclusive accompanying measures

Effective and inclusive Accompanying Measures

- ❖ Accompanying measures are necessary to support effective implementation and mitigate unintended consequences and potential negative impacts of policies – especially for MSMEs;
- ❖ Different types of accompanying measures must be contemplated, of which the following priorities have been identified by ITC to support MSMEs:



- ❖ Accompanying measures along these priority areas are found essential to promote conservation and sustainable use of forests, compliance with mHREDD while avoiding potential exclusion of producers and MSMEs from global value chains.
- ❖ ITC works with stakeholders across the value chain to support producer countries and their MSMEs

Challenges & Opportunities for MSMEs

- Growing diversity and number of environmental regulations and sustainability standards;
- Potential gravitation towards destinations that comply;
- Risk of leaving smallholders behind;
- Cost implications of compliance – Impact on the weaker actors;
- Increasing requirements for producers and businesses along the value chains;
- Reputational risk increasing for companies that would not embrace environmentally friendly business practices;
- Transition periods proof challenging for small operations depending on their current status (i.e. 18/24 months under EUDR).

- Enhanced competitiveness of MSMEs and improved access to international markets:
- Value creation responding to consumers' demand;
- Increased productivity and reduced costs of production;
- Enhanced access to finance and new technologies.
- Increased resilience of MSMEs to external shocks in global value chains;
- Opportunity to improve production processes at origin;
- Stronger collaboration at value chain level at origin;
- Promote the transition towards more sustainable value chains (VCs)

Conclusions & reflexions

- Compliance with TrCMs can be a significant fixed cost, disadvantaging smaller businesses. There is need for co-investment by all parties in VC and to facilitate the equal distribution of the cost and value of due diligence implementation across the value chain
- Larger companies are better positioned to navigate TrCMs due to their ability to absorb fixed compliance costs
- MSMEs face hurdles but can find opportunities to enhance value and competitiveness
- AfT can play a crucial role in supporting MSMEs affected by TrCMs:
 - Dialogue platform: facilitating communication between MSMEs and relevant stakeholders
 - Capacity building: assisting MSMEs to meet compliance requirements
 - Building Resilience: enabling MSMEs to adapt and thrive in the face of changing trade and climate measures

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