Addressing the architecture of global trade in the context of climate

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Climate policy is currently in the balance, as was evident this month in Bonn at the first round of UN negotiations since the start of the Ukraine war. On the one hand, governments must become more ambitious, increasing the costs of climate-damaging economic activity and, if necessary, securing this externally through trade measures. On the other

hand, they must abide by the rules agreed in the World Trade Organization (WTO), especially at a time when the international order is being shaken. In the journal *Science*, an international research team has now shed light on how trade policy can help the climate in this situation. The lead author is Michael Jakob, Senior Researcher at the Berlin-based climate research institute MCC (Mercator Research Institute on Global Commons and Climate Change).

The research team brings together the expertise of 33 experts from twelve countries, mostly from the fields of economics, law, and political science, who published a book on the subject in March. "Countries will need to carefully navigate between the desire to respect trade rules and the need to implement effective climate policies," the article says. This creates difficulties, for example, for the EU Commission's proposal to impose the rising carbon price in Europe on importers from overseas. "Prior diplomatic efforts, even-handed application and transparent administration could substantially increase the chances of a border carbon adjustment regime to survive WTO scrutiny." Without it, there is a risk of carbon leakage, i.e. relocation of production and corresponding CO_2 emissions to regions with less climate protection. This would both hinder efforts to protect the climate and impair prosperity in Europe.

Conversely, climate policy could make use of the WTO to curb the subsidies on fossil fuels that still exist all over the world. These amount to 350 billion dollars a year—a huge economic incentive for climate-damaging behavior. "The WTO is in a good position to help promote fossil fuel subsidy reform," writes the research team, pointing to the organization's central role in the current struggle to reach an agreement against fishery subsidies and thus overfishing of the world's oceans. "Specifically, the WTO can address fossil fuel subsidy reform in the Trade Policy Review Mechanism." This would put reform on the political agenda of the 164 member states.

Trade policy could also affect the climate through tariff reductions. From a global perspective, tariffs are significantly higher for end products than for raw materials and intermediate products, even though the production of end products is much less carbon-intensive. This bias practically embodies a negative carbon price of 90 dollars per ton of CO_2. "This is the opposite of what a climate-supportive trade regime would require," the research team notes. Talks on trade liberalization could focus on environmental goods, which might help to accelerate the transfer and diffusion of clean technologies worldwide. "This effort could be extended to Environmentally Preferable Products, such as organic food or sustainably grown timber products."

Overall, the article concludes, the potential of the trade regime to advance climate policy under the umbrella of the WTO has not yet been fully exploited. "The options discussed above will face political obstacles. Yet growing awareness of the urgency to transform the global economy towards climate neutrality could give new impetus for restructuring the trade regime."

More information: Michael Jakob et al, How trade policy can support the climate agenda, *Science* (2022). DOI: 10.1126/science.abo4207

Jakob, M., et al., 2022, Handbook on Trade Policy and Climate Change, Edward Elgar Publishing.
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https://phys.org/news/2022-06-architecture-global-context-climate.html