

A new kind of trade deal could help protect the world's tropical forests

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Historically, trade liberalization has been bad news for the world's tropical forests. As wealthy nations' appetite for imported agricultural goods like beef and soy has exploded, deforestation in countries such as

Brazil has surged.

As one former U.S. climate negotiator put it, "We are unintentionally creating a financial incentive for criminals to set fire to the Amazon and convert it to farmland."

Is it possible to expand [international trade](#) without endangering [tropical forests](#)? Sanctions, border tax adjustments, and climate clubs have proved less than ideal, says Bård Harstad, a professor of political economy at Stanford Graduate School of Business. They distort trade, involve empty threats, and are not effective at protecting forests.

In a pair of forthcoming papers, Harstad outlines a potential solution: a new type of deal called a contingent trade agreement. Under a CTA, trading partners agree to link [free trade](#) to conservation goals so that countries in what's known as the Global North can incentivize those in the Global South to conserve their tropical forests—without issuing toothless warnings or putting up [trade barriers](#).

Harstad's research was inspired by a pending trade agreement between the European Union and Mercosur, a bloc of South American countries led by Argentina, Brazil, Paraguay, and Uruguay. In 2019, two decades after talks began, negotiators reached a deal just as then-Brazilian president Jair Bolsonaro was rolling back environmental protections and fires were ravaging the Amazon.

Several European countries, including France, Germany, and the Netherlands, pumped the brakes on ratifying the agreement, citing its environmental effects. Recently, the parties have been haggling over an addendum proposed by the EU to protect the Amazon.

Right now, there is a small window of political opportunity to ratify a trade agreement that is economically beneficial for both blocs without

fueling rampant deforestation. If ratification doesn't happen by early December, it might not happen at all.

Saving trees with tariffs

This is the precise situation where a CTA would be useful, Harstad argues. Research has shown that the sustainable trade and development chapters the EU has tacked onto past trade agreements have had little effect. "They've never been followed up with sanctions on those countries that are violating those conditions," Harstad says. After a country clears part of its forest, it's not in other countries' interest to punish it by imposing costly sanctions or halting trade. At that point, "bygones are bygones."

A contingent trade agreement would skirt this problem. Here's how it works: two regions, say the EU and Brazil, agree to a range of potential tariffs that hinge on a conservation criterion, such as forest cover. The deal's initial terms favor Brazil, giving its leaders a strong incentive to protect the forest: As long as it remains intact, they can export beef and soy to Europe without tariffs. If satellite monitoring shows that Brazil's forest cover is shrinking, then the terms of trade would change to be more beneficial to the EU. It would impose a tariff on Brazilian imports, driving down their price.

"Free trade is the carrot," Harstad explains. "When this works, there will be no deforestation, there will be no tariff, and therefore trade will not be distorted."

A CTA is more likely to be credible, or "renegotiation-proof," if the terms shift gradually "so that the more deforestation there is, the higher the tariff on beef or soy," Harstad explains. The increased tariffs must be painful enough that conservation is more appealing to Brazil, but not so painful that it walks away from the deal.

Both regions have something to gain from the agreement even if tariffs increase—to a point. Because there is a limit to the tariffs that both regions are willing to tolerate, there is a limit to how much forest can be conserved using a CTA. Still, Harstad was surprised by preliminary results showing just how effective CTAs could be.

If Brazil were to enter free trade agreements with all its trading partners and Asia's demand for beef were to double, as it has in recent years, Harstad's model predicts that the amount of land deforested for agriculture in Brazil would increase by a catastrophic 27%.

Let's make a deal

On the other hand, if just the EU and Brazil were to enter a CTA, this would result in a smaller increase—14%. There would be some leakage; if Brazil didn't want to be subjected to the EU's tariffs, it could export more goods to countries that wouldn't penalize it for deforestation. But if the EU and U.S. were to coordinate on a CTA with Brazil, they could plug the leaks and the amount of forest cleared for agriculture would rise by just 3%.

While Harstad was conducting this research, France and the Netherlands published a short paper outlining the broad strokes of how the EU could link shifting [tariff](#) levels to conservation goals. With the models described in his two papers, "I show how exactly the proposal can be implemented and how much we can gain from it," Harstad says.

Using tariffs to allocate gains from trade in order to compel conservation is a novel idea, but it might prove more feasible than paying outright for conservation. Wealthy nations have found it politically difficult to scrounge the cash to compensate other countries for conserving tropical forests.

"Because of the challenges to using explicit payments, it's important to investigate what we can achieve even without the use of monetary payments and how we can use other agreements, such as trade agreements," Harstad says.

Harstad hopes that empirical trade economists will build upon these theories and that politicians and negotiators will realize how trade deals can be designed to motivate conservation. The clock is ticking on the EU-Mercosur negotiations, but Harstad thinks the final deal could be modified to include contingencies to protect tropical forests. "Next," he says, "I'm dreaming of a conservation-friendly U.S.–Mercosur trade agreement."

More information: Bård Harstad, Trade and Trees.

[www.gsb.stanford.edu/faculty-r ... g-papers/trade-trees](http://www.gsb.stanford.edu/faculty-r...g-papers/trade-trees)

Bård Harstad, Contingent Trade Agreements.

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Provided by Stanford University

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