

# Green trade for green recovery

IEEP's response to the European Commission's public consultation 'A renewed trade policy for a stronger Europe'

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**Context:** As announced in its recent proposal on Europe's post-coronavirus recovery "[Europe's moment: repair and prepare for the next generation](#)", the European Commission is launching a review of the EU's trade and investment policy. The objectives for this process are twofold. First, to assess how trade policy can contribute to a swift and sustainable socio-economic recovery, reinforcing competitiveness and addressing the challenges in the post-COVID-19 environment, and helping to promote EU's values and standards. Second, to see how trade policy can support EU's "open strategic autonomy" aimed at securing the benefits of openness while protecting for businesses, workers and consumers from unfair practices, and building up resilience to future challenges. The policy review will set the political direction for EU's trade and investment policy in the years to come.

**12 November 2020** | IEEP welcomes the Commission's commitment to consult with stakeholders on the direction of the EU's trade and investment policy. While EU trade policy puts a great emphasis on trade being a vehicle for sustainable development, the existing evidence demonstrates that a net positive contribution of the EU trade to sustainable development – going beyond the economic and addressing also the environmental and social aspects – is as yet far from being achieved. Therefore, there is an urgent need to find ways to make EU trade and its impacts on global value chains more sustainable.

Given IEEP's expertise, this submission focuses on those questions put forward by the public consultation with the most pertinent links to the sustainability of EU trade and trade policy, and the related opportunities to support green recovery both in Europe and globally.

## Question 1: How can trade policy help to improve the EU's resilience and build a model of open strategic autonomy?

To be resilient in the long run, the concept of open strategic autonomy needs to take into consideration and address environmental risk factors as well as constraints. Consequently, the creation of **green, more resilient and transparent supply chains**, with the help of EU trade policy, should form an integral part of the concept. In particular, a shift to a circular economy in the EU – as foreseen by the EU Green Deal and Circular Economy Action Plan (CEAP) – can help enhance EU's strategic autonomy by preventing material or economic scarcity around strategic materials while, at the same time, enhancing the sustainability of global supply chains<sup>1</sup>. Circular supply chains represent an opportunity to further the implementation of both the sustainable development goals (SDGs) – especially SDG12 on sustainable consumption and production – and the Paris Agreement.

Building on the above, the future EU trade policy should support the adoption of globally collaborative and inclusive approaches to the **design and use of product and production standards for circularity and decarbonisation** within key global supply chains (see also Question 4 below). In doing so, trade policy should also aim to ensure coherence with the upcoming [legislative proposal on "due diligence"](#), as well as with the EU Green Deal's proposed [deforestation and forest degradation free value chains initiative](#) (see also Question 9 below), both scheduled for 2021.

Supply chain reform should focus on key sectors that are most likely to have the highest carbon footprint, with special attention being paid to the transformative effects this reform would have on the rest of the economy due to supply chain linkages. To support the above, the EU should also play a pro-active role in **creating cooperative, multi-stakeholder dialogues for key sectors** – with industry, think tanks, civil society and governments – including in the context of WTO. Finally, foster links between social and environmental agendas around supply chains in general and strengthening the climate resilience of trade infrastructure especially in low-income countries, in particular, should be considered key priorities.

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<sup>1</sup> [JEEP – EU Circular Economy and Trade Report](#) (2019)

### **Question 3: How should the multilateral trade framework (WTO) be strengthened to ensure stability, predictability and a rules-based environment for fair and sustainable trade and investment?**

The EU should use its **trade diplomacy** within the WTO and the G20 to gather support around the notion of “**greening trade for a green recovery**” to avoid the return of economic nationalism and support a future, genuinely sustainable, trade liberalisation agenda aligned with the Paris Agreement and the SDGs. There is currently a lack of proposals regarding how to improve the sustainability of trade as well as support the implementation of SDGs in developing countries in a globally cooperative rather than nationally defensive manner.

Key areas for the EU to champion in the WTO trade diplomacy context could include, for example:

- Ensuring rapid recovery of sustainable sectors, such as sustainable tourism;
- Using trade to leverage higher environmental ambition across different sectors, including building on the recent Dutch and French proposals<sup>2</sup> to increase market access contingent upon the respect for environmental standards;
- Continuing efforts to address the impasse in the negotiations for the Environmental Goods Agreement (EGA) while also exploring the potential for plurilateral negotiations on green public procurement (GPP) a coalition of the willing, including identifying barriers to the take up of low-carbon technologies;
- Adopting collaborative and inclusive approaches to the design and use of product and production standards for circularity and decarbonisation within key global supply chains (as per Question 1 above);
- Working towards reaching a common understanding on subsidies which, while in principle trade-distorting, can improve environmental outcomes of trade, and/or introducing a moratorium on raising trade disputes which concern subsidies that are positive for the environment, while supporting the adoption of a credible roadmap for progressive banning of environmentally harmful subsidies. In this context, the EU should seek to address the blockage of fishery subsidy reform – considered by many as the “gate-keeper” environmental sustainability debate at the WTO – and finalise a

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<sup>2</sup> [Franse Ambassade in Den Haag – Non-paper from the Netherlands and France on trade, social economic effects and sustainable development](#) (May 2020)

fair and meaningful WTO agreement on fishery subsidies that addresses the impact of the current crisis on employment within the sector and food security of populations dependent on fish for their access to protein;

- In the context of developing economies, addressing green capacity constraints and boosting green export sectors through improved access to trade finance, relaxed rules of origin for low-carbon sectors and products, boosting green Aid for Trade (AfT) and promoting green technology transfer for low-income countries. In particular, supporting export diversification and productive capacity in sustainable agriculture while providing Official Development Aid (ODA) to boost the resilience of trade infrastructure to natural disasters and climate change;
- Raise discussion on the no-net-negative incidence of post-COVID trade measures for Least Developed countries (LDCs).

In general, the EU should consider reigniting efforts from a number of developed and developing countries to agree to a joint statement on trade and sustainability for the next WTO ministerial scheduled for 2021 while also considering the proposal to create independent, interdisciplinary panels of experts appointed by the WTO Director-General on how to ensure WTO negotiations – both multilateral and plurilateral negotiations, such as those on investment facilitation and e-commerce – contribute to the implementation of the SDGs and Paris Agreement.

#### **Question 4: How can we use our broad network of existing FTAs or new FTAs to improve market access for EU exporters and investors, and promote international regulatory cooperation- particularly in relation to digital and green technologies and standards in order to maximise their potential?**

The EU should take action on new approaches and models for bilateral and regional trade and investment agreements that respond to urgent COVID-19-related challenges in ways that also catalyse and promote the transition toward a more circular and net-zero global economy, ensure countries have space to implement the Paris Agreement, support adaptation to climate change, and advance the achievement of the SDGs.

In this context, IEEP continues to emphasise the EU's potential for improving the sustainability of global trade through the **elevation of environmental standards**, particularly in the case of the circular economy. The EU CEAP published in March of 2020, undoubtedly confirms the Commission's aspiration to lead the

transition to a global circular economy for which cooperation within the EU's broad network of trading partners is key.

Trade partners that have demonstrated willingness to take forward circular economy and resource efficiency agendas – such as Canada, Japan, China, and the African Circular Economy Alliance – are key partners to cooperate on the advancement of clarity and common understanding of standards and definitions. With its broad trade network, the EU could head the establishment of a knowledge and information exchange platform, both within the EU and between EU and trade partner countries.

Collaborative international regulatory cooperation can also improve **market access for EU exporters and investors in the context of the circular economy**. International standards on circularity will require EU and trade partner countries to reinforce their circular economy strategies domestically due to the possible increase in trade barriers in second-hand goods (clothing, vehicles) as developing countries take action for the environment and/or their national industry. Preparing and supporting EU exporters for the prospective international standardisation of circularity in supply chains will be the best way to improve their market access.

Moreover, the EU as an exporter of waste will need to improve and harmonise EU standards for recycled waste to ensure the quality of secondary raw materials to enhance their safe utilisation and trade within and outside the EU. To this end, the EU will need to improve measures to prevent the illegal or otherwise unsustainable shipment of waste from the EU. These measures could include ensuring that exports comply with the Basel Convention provisions for the quality and purpose of waste, strengthening Member States' inspection systems for illegal waste, and promoting knowledge exchange through improved cooperation with the Member States for the implementation of waste legislation.

**Question 5: With which partners and regions should the EU prioritise its engagement? In particular, how can we strengthen our trade and investment relationships with the neighbouring countries and Africa to our mutual benefit?**

Trade, including trade with the EU, plays a significant role in supporting the economic development of countries across the world. Consequently, the EU should prioritise its future engagement with developing economies, more specifically those in Africa and other Generalised Scheme of Preferences (GSP) beneficiaries. Alongside the previously mentioned collaboration potential for advancing the circular economy, the EU should support the elevation of environmental standards

in developing countries, fostering sustainable development through trade in third countries (See also Question 4).

**EU AfT scheme:** The EU AfT strategy consists of providing targeted assistance to EU trade partners with the aim of maximising development-related benefits of trade and is part of the EU external assistance and development cooperation policy. Features of the EU AfT strategy include technical assistance for trade regulations and standards, building trade-related infrastructure, building a country's productive capacity vis-à-vis trade sectors, and support with trade-related adjustments in the economy, notably within the manufacturing and industry sectors.

To maximise development-related benefits for EU and partner countries through trade, IEEP recommends the improvement of EU policy coherence between the CEAP, trade policy and the AfT strategy. Furthermore, the AfT strategy should support partner countries in developing their own circular economy roadmaps, strategies and business sectors – aimed at finding solutions for sustainable global value chains – and include initiatives aimed at facilitating trade in products and services based on sustainable circular practices.

**EU GSP regime:** The current GSP Regulation review presents an opportunity to not only put more focus on assisting GSP beneficiaries in elevating their standards on sustainable goods, but it could also effectively boost trade in sustainable goods by reviewing current trade rules that may hamper the development and export of these goods. Two well-known barriers to trade in sustainable goods are the 'rules of origin' and the 'graduation of products'. Relaxing the conditions surrounding these rules for low carbon and sustainable (e.g. circular) goods, could stimulate the demand for climate-friendly products and encourage export diversification in sustainable goods for GSP countries.<sup>3</sup>

Finally, the EU's trade policy should not penalise developing countries or come at the cost of trade relationships. This is particularly a concern when it comes to the implementation of the EU's planned carbon border adjustment mechanism (CBAM)<sup>4</sup>. International criticism of a CBAM is that it is a disguised protectionist measure, implying that its main objective is to protect domestic producers from competitive imports. Moreover, the CBAM risks disincentivising promising firms making headway on low-carbon production.

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<sup>3</sup> [IEEP's response to the public consultation on the EU's Generalised Scheme of Preferences](#) (2020) explores how the Regulation should fit the wider EU policy context and aim to secure global sustainable development within the context of the SDGs.

<sup>4</sup> [IEEP's response to the public consultation on the EU's carbon border adjustment mechanism](#) (2020) calls for a circular economy-compatible carbon border adjustment mechanism with the aim of delivering the EU's climate objectives in a synergetic manner.

**Question 8: How can trade policy facilitate the transition to a greener, fairer and more responsible economy at home and abroad? How can trade policy further promote the UN Sustainable Development Goals (SDGs)? How should implementation and enforcement support these objectives?**

The EU is in a strong position to promote more **sustainable production and sourcing of commodities globally through trade**. Building on its significant purchasing power it can push for better environmental standards not only within the EU but also in the EU trade partner countries. True to this potential, the EU has been actively promoting trade as a tool that fosters sustainability both globally and within trade partner countries. The EU Green Deal, forming the blueprint for EU policy- and decision-making for the coming five years, unequivocally re-confirms this role and objective of the EU trade policy.

Therefore, according to evidence to date, the EU should proceed with several concrete future developments linked to trade and the environment – as foreseen in the Green Deal – including making the respect of the Paris Agreement an essential element for all future comprehensive trade agreements and the appointment of a Chief Trade Enforcement Officer to step up efforts to enforce the Trade and Sustainable Development (TSD) Chapter commitments.

However, the effectiveness of the EU's endeavours in practice to date leaves room for improvement, and the European Commission has faced wide criticism when it comes to the implementation of sustainable development components within its trade deals. The different existing tools, despite their potential to improve free trade agreements' (FTA) sustainability aspects, are struggling to bring in clear objectives and roadmaps for parties to reach sustainability objectives.

The 2018 TSD Action Plan by the Commission aims to improve the implementation and enforcement of the EU FTAs' sustainability-related provisions, foreseeing a more "assertive enforcement" of TSD Chapter provisions, including stepping up monitoring efforts and timely activation of the arbitration panel where warranted. We saw those words translate into action when the EU [partially withdrew Cambodia's duty-free quota-free access](#) to the EU market over repeated human and labour rights concerns. However, there is still a need to improve upon the EU's trade policy for it to further facilitate the transition to a greener, fairer and more responsible economy.

In the context shaping trade policy to work for the environment, IEEP recommends including proper monitoring processes, clear goals and effective mechanisms to address non-compliance in the TSD Chapters, and strengthening the

environmental performance and stakeholder engagement in the Sustainability Impact Assessments (SIA).

**Improving TSD Chapter scope and implementation:** Over recent years, the effectiveness of TSD Chapters has come under scrutiny, with one of the main points of contention being the compliance gap, which is fostered by the lack of institutionalisation of and accountability for enforcement of the chapters. There is a lack of a mechanism for enforcement and consequently, the chapters are considered to have little impact on sustainability with partnering countries. There is no stringent mechanism to address or reverse negative impacts of trade, with the TSD dispute settlement provisions lacking teeth to do.

Accounting for these critiques, IEEP emphasises the need to trade work for the environment in future FTAs by integrating environmental and sustainability provisions – beyond the TSD Chapters – into sector-specific chapters, and improving the enforcement of TSD provisions by including the implementation of the TSD Chapter under the more stringent overall FTA dispute settlement mechanism. For existing FTAs, the implementation of TSD Chapters should be improved upon by taking forward the foreseen trade and sustainable development-related actions under the Green Deal, including allocating dedicated resources for their delivery.

In general, the EU should seek to operationalise environmental conditionality for new trade negotiations, including refraining from trade agreements with developed countries that do not have an effective carbon price (achieved through e.g. taxation or cap and trade). For existing agreements, the EU must ensure all commitments to abide by international Multilateral Environmental Agreements, referred to in FTAs, are operationalised, including the Convention for Conserving Biological Diversity (CBD).

**Improving environmental performance in SIAs:** SIAs aim to provide recommendations on the accompanying measures that need to be put in place for integrating issues of sustainable development into trade policy. The scope of SIAs vary depending on the type of trade and/or investment deal being negotiated, and while the EU SIA Guidance provides a rather comprehensive list of environmental themes that may be assessed – air and climate, land, water, biodiversity, energy, waste, transport and chemicals – the guidance provides no obligatory minimum requirements for integrating environmental aspects into the analysis.

IEEP's previous research finds that the EU SIA process is in a need of more explicit guidance for and systematic and in-depth treatment of environmental aspects (climate, water, biodiversity, circular use of resources, etc.) across sectors affected by trade liberalisation. IEEP emphasises the need to update or complement the



official EU SIA Guidance Handbook with more explicit guidance for assessing environmental impacts (e.g. deforestation and biodiversity) while simultaneously ensuring adequate resources for third parties carrying out the assessments, to improve the extent and robustness of environment-related analysis. This should be complemented by continuing to develop methods and tools for assessing different environmental consequences of trade liberalisation, including improving the spatial granularity of assessments.

Finally, IEEP recommends improving the **monitoring of EU's trade-related environmental footprint** on third countries, including the adoption of dedicated indicators for this under the annual SDG framework monitoring by Eurostat<sup>5</sup>.

### **Question 9: How can trade policy help to foster more responsible business conduct? What role should trade policy play in promoting transparent, responsible and sustainable supply chains?**

The Commission is committed to taking measures – including regulatory measures – to promote imported products and value chains that do not involve deforestation and forest degradation under the EU Green Deal. In practice this means the development of EU standards and criteria for sustainably sourced products originating from third countries, specifically building on the lessons learned from the existing **EU sector-specific instruments on due diligence**.

In particular, the EU Timber Regulation (EUTR), which seeks to halt the trade of illegally harvested timber on the EU market, requires EU operators to act on preventing the entry of illegally sourced timber or timber products on the EU market by obliging them to act with reasonable care to investigate, manage and mitigate risk within their supply chains (due diligence). Existing sector-specific EU initiatives such as the EUTR could help to pave the way for the development of globally recognised product and production standards for deforestation-free value chains as these standards automatically apply to all EU trade partner countries in exchange for access to the EU market (see also Question 1 above).

The EUTR is a pioneering example of how EU trade policy can help to foster responsible business conduct and promote transparent, sustainable supply chains. Its implementation has also highlighted several challenges, with a lesson learned for the future. For example, based on the EUTR experience it will be important to ensure early engagement with key trade partner countries to support co-development and future uptake of the standards (e.g. African countries, as foreseen in

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<sup>5</sup> [IEEP & SDSN – 2019 Europe Sustainable Development Report](#) (2019)

the EU Green Deal). Furthermore, supporting the implementation and enforcement of due diligence measures by the Member State operators and authorities will play a key role in the uptake of standards.

**Question 10: How can digital trade rules benefit EU businesses, including SMEs? How could the digital transition, within the EU but also in developing country trade partners, be supported by trade policy, in particular when it comes to key digital technologies and major developments (e.g. block chain, artificial intelligence, big data flows)?**

It is paramount to harness the digitalisation of the world economy to achieve the objectives of the Paris Agreement and more largely the SDGs. However, digitalisation is not synonymous to dematerialisation, nor does it necessarily lead to greater eco-efficiency. In fact, digitalisation contributes to a significant proportion of greenhouse gases emitted worldwide through the production of ICT and its further development could also lead to an increase in the energy demand<sup>6</sup>. Therefore, trade-related aspects of the “twin transition” of the European Green Deal and the European Digital Strategy must be approached as two closely interlinked files. If digitalisation negatively impacts incoming tax revenue in the EU or in developing countries, this could put the realisation of SDGs at risk.

Building on the above, IEEP recommends **greening the debates around the trade-related aspects of e-commerce and digital data flows**. Two upcoming developments related to trade and digitalisation are the 2021 WTO ministerial, which is meant to finalise a plurilateral agreement on e-commerce, and the moratorium on applying customs duties on electronic transmissions, which will come to an end in June 2020<sup>7</sup>. Furthermore, IEEP emphasises the role of the Commission in conducting impact assessments and introducing concrete proposals on the greening of e-commerce and digital trade flows to its key trading partners and within the WTO.

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<sup>6</sup> [The Shift Project – Lean ICT: Towards digital sobriety](#) (2019)

<sup>7</sup> [WTO – WTO members agree to extend e-commerce, non-violation moratoriums](#) (10 December 2019)

**Question 12: In addition to existing instruments, such as trade defence, how should the EU address coercive, distortive and unfair trading practices by third countries? Should existing instruments be further improved or additional instruments be considered?**

**Greening EU's trade defence instruments:** The current debates surrounding trade defence instruments, investment screening, and export promotion policies do not consider either the positive or negative impacts on the environment or more largely on the SDGs. IEEP recommends studying how these trade measures could be aligned with the EU Green Deal and the Paris Agreement objectives. The Commission should include these topics into trade policy discussions with key trading partners to explore how their defence policies could also be aligned towards the Paris Agreement and to design further bilateral, plurilateral or multilateral disciplines to this effect.

**Question 13: What other important topics not covered by the questions above should the Trade Policy Review address?**

**Green Foreign Direct Investment (FDI):** There is a need to 'green' EU FDI policy by bridging the discussions between the '[shifting the trillions](#)' narrative, greening finance as part of recovery plans, and the sustainable finance action plan and rules governing FDI.

In IEEP's view, the [Sustainable Finance Action Plan](#) Phase II should support the development of due diligence legislation and link it to the Action Plan, as well as explore the introduction of the principle of discrimination around FDI based on the [Sustainable Finance Taxonomy](#).

Second, the Commission should explore how FDI policies could provide capacity and incentives for innovation on clean technologies and enhance developing country participation in green value chains for such goods. UNEP's research has demonstrated that many developing countries have so far not fully benefitted from the trade in environmental goods and services and lack knowledge and capacity to harness related trade and investment opportunities<sup>8</sup>.

Lastly, other areas where the EU could strengthen sustainable investment include, for example, greening its investment screening policies and exploring extraterritorial obligations for EU-based multinationals when investing abroad.

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<sup>8</sup> [UNEP – Trade in Environmentally Sound Technologies: Implicating for Developing Countries](#) (2019)

**Phasing out the ‘brown’ economy:** The EU should use its trade policy to support phasing out the brown economy. This could be carried out through constructive trade dialogues with members of the [Agreement on Climate Change, Trade and Sustainability](#) (ACCTS) or [Friends Advancing Sustainable Trade](#) (FAST) and other relevant partners. Such phasing out would require: disciplining subsidies and investment that create long-term trade- and competition-distorting effects alongside negative climate impacts; avoiding trade defence measures; and providing targeted support for structural reform in low and medium-income countries to eliminate fossil fuel subsidies.

Other ways in which trade policy can contribute to the phase-out of the brown economy are by rebalancing tariffs according to the Paris Agreement objectives – as recent research shows that tariffs in carbon-intensive products are on average lower than those on more sustainable products<sup>9</sup> – and by supporting ambitious plastics trade regulation, building on the amendment to the Basel Convention on plastic waste and the 128 legislations existing in the world on single-use plastics.

## More info

IEEP’s response to the European Commission’s public consultation drew from a number of papers – references within – [Kettunen, Davey, Bodin, Gionfra & Charveriat \(2020\)](#), [Kettunen, Gionfra & Monteville \(2019\)](#), [Charveriat & Deere-Birkbeck \(2020\)](#), [Nanni, Allen, Bowyer & Kettunen \(2020\)](#), [Blot, Kettunen & Charveriat \(2020a\)](#), [Blot, Kettunen & Charveriat \(2020b\)](#) and [Blot, Schefer, Kettunen & Charveriat \(2020\)](#).

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<sup>9</sup> [Shapiro, J., Energy Institute at Haas – The Environmental Bias of Trade Policy \(May 2020\)](#)



This work has been produced with the financial support of the LIFE Programme of the European Union. The response to the public consultation reflects only the views of its authors.

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