International Trade Committee
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Rt Hon Kemi Badenoch MP
Secretary of State for International Trade
Department for International Trade
Old Admiralty Building
Whitehall
London
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2 November 2022

Dear Kemi,

I am writing to you in relation to my Committee's inquiry into trade and the environment. We launched this inquiry to scrutinise the extent to which the Government's approach to trade reflects its 'net zero' ambitions. We received expert evidence on issues ranging from the role of environmental considerations in free trade agreement (FTA) negotiations to consumer labelling, export finance, and the trade in green goods and technologies.

The Board of Trade last year set out the case for "green trade".[1] We acknowledge the importance of many of the goals that the report outlines and are monitoring the Government's progress towards them, particularly in the light of the FTAs that the UK has signed with Australia and New Zealand.

Due to the heavy demands that have recently been imposed on the Committee's time by the scrutiny of FTAs, the inquiry has not been conducted in our usual way. Instead, we have considered the written evidence we have gratefully received, including that from your department, and I am writing to outline our findings and questions arising from them.

The recent removal of the President for COP 26 and the Climate Minister from the Cabinet, and the Prime Minister's apparent decision not attend COP 27, have raised concerns about the Government's commitment to environmental issues, despite your own more recent words about the importance of a green trade approach.[2]

I would appreciate a full reply to this letter by 14 December, as your responses will closely inform our understanding and scrutiny of future FTAs, as well as other possible inquiries.

In accordance with our usual practice, this letter, along with any replies, will be published on the Committee's webpage.

Kind regards,

Angus B MacNeil

Angus Brendan MacNeil
Chair of the International Trade Committee

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[1] Board of Trade, *Green Trade*, July 2021
[2] Department for International Trade, *Trade Secretary sets out plan to 'future-proof UK economy'*, 1 November 2022

Trade strategy

In my letter on trade and foreign policy,[3] I noted concerns about the Government's lack of a clear trade strategy document, further to our recent report which reiterated our calls for this.[4] While you are preparing your response to that report, I wanted to note that concerns about this issue were also expressed in evidence to this inquiry.[5]

UK environmental standards on pesticides

The Pesticide Action Network (PAN) has highlighted the use of agricultural chemicals as an issue of particular concern in negotiating trade agreements.[6] It notes that farmers in Australia are permitted to use over 70 pesticides that are banned in the UK.[7] There appear to be two risks associated with this.

The first risk is that British consumers could potentially end up being exposed to harmful chemicals in their food.

Your predecessor's response to our report on the UK-Australia FTA pointed out that the UK's regulatory regime currently includes a set of relatively strict Maximum Residue Levels (MRLs), which ban food imports containing amounts of pesticides that exceed the stated level.[8] However, PAN raised concerns that UK trade partners might seek to use trade agreements to push the UK away from its current "hazard-based approach" and towards a more "risk-based approach", which would result in substances being banned only when harm is proven—a high burden of proof.[9]

We therefore ask:

1. *Can you guarantee that the Government will never sign a trade deal that weakens the UK's pesticide control regime – particularly as regards maintaining Maximum Residue Levels?*

The second risk is that liberalising trade with countries that have weaker pesticide controls than the UK's will undermine UK producers' market share,[10] and thereby

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[3] Angus Brendan MacNeil MP to Rt Hon Kemi Badenoch MP, 31 October 2022
[4] International Trade Committee, Fourth Report of Session 2022-23, *UK trade negotiations: Parliamentary scrutiny of free trade agreements*, HC 815, paras 12-15
[5] Compassion In World Farming (TEN0001); Department of Geography, Royal Holloway, University of London (TEN0002); Fairtrade Foundation (TEN0003); National Farmers' Union (TEN0004); Aldersgate Group (TEN0007); Traidcraft Exchange (TEN0012); The Association for Renewable Energy and Clean Technologies (TEN0014); British Exporters Association (TEN0020); UK Professional and Business Services Council (TEN0021); WWF-UK (TEN0022); Global Justice Now (TEN0023); Friends of the Earth (TEN0026); Greener UK (TEN0027); Institute for Public Policy Research (TEN0029); Which? (TEN0030); UK Steel (TEN0032)
[6] Pesticide Action Network UK (TEN0006)
[7] Pesticide Action Network UK (TEN0006); International Trade Committee, Second Report of Session 2022–23, *UK trade negotiations: Agreement with Australia*, HC117, para 132
[8] International Trade Committee, First Special Report of Session 2022–23, *UK trade negotiations: Scrutiny of Agreement with Australia and Agreement with Australia: Government Response to the Committee's First and Second Reports*, HC704, para 63; see also Department for International Trade, *Report pursuant to Section 42 of the Agriculture Act 2020: UK-Australia Free Trade Agreement* (June 2022), p 15
[9] Pesticide Action Network UK (TEN0006), paras 5, 14, 26
[10] Pesticide Action Network UK (TEN0006); Department for International Trade, *Trade and Agriculture Commission: Advice to the Secretary of State for International Trade on the UK-Australia Free Trade Agreement* (April 2022), pp 37, 42, 48; International Trade Committee, Second Report of Session 2022–23, *UK trade negotiations: Agreement with Australia*, HC117, paras 134, 163

effectively export environmental harm.[11] We raised this issue in our report on the UK-Australia Agreement, but did not receive a satisfactory reply from the Government.[12]

We ask:

2. *How will the Government address the issue of potential unfair competition for UK agri-food producers as a result of liberalising trade with countries that have weaker pesticide controls than the UK's?*

We note that, under World Trade Organization rules, and the terms of FTAs to which the UK is a party, it is not permitted to restrict imports of goods whose production has a negative impact on the natural environment of the exporting country but not on that of the UK.[13] We therefore further ask:

3. *How will the Government work with trade partners to restrict the use of harmful pesticides in the production of food for export to the UK market?*

Addressing carbon leakage

A related concern raised in evidence was that FTAs will encourage carbon leakage—whereby British producers outsource the carbon-intensive elements of their supply chains abroad.[14] We were told that it is currently estimated that overseas emissions account for nearly 50% of the UK's carbon emissions, a figure due to rise to 80% by 2050.[15] Unless this problem is addressed, the UK risks merely shifting its emissions rather than reducing them.

One possible mechanism for preventing carbon leakage is a carbon border adjustment mechanism (CBAM). Under a CBAM, importers pay a levy to reflect the cost of the carbon embedded in their product—putting them on a level playing field with domestic producers.

While CBAMs have the benefit of not requiring lengthy bilateral or multilateral negotiations, we note that there are potential challenges in their use.

First, there are methodological issues: CBAMs require agreement between the UK and trade partners on the way the carbon price is calculated; they would also need reliable, and preferably independent, oversight of suppliers' carbon costs.[16] There are further issues over the scope of CBAMs.[17]

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[11] International Trade Committee, Second Report of Session 2022–23, *UK trade negotiations: Agreement with Australia*, HC117, para 156
[12] International Trade Committee, First Special Report of Session 2022–23, *UK trade negotiations: Scrutiny of Agreement with Australia and Agreement with Australia: Government Response to the Committee's First and Second Reports*, HC704, para 63
[13] Department for International Trade, *Trade and Agriculture Commission: Advice to the Secretary of State for International Trade on the UK-Australia Free Trade Agreement* (April 2022), pp 47–48
[14] HM Treasury, *Net Zero Review* (October 2021)
[15] Fairtrade Foundation (TEN0003). See also *A Climate of Crisis: Farmers, Our Food and the Fight for Justice*, Fairtrade Foundation, 2021.
[16] British Exporters Association (TEN0020); Institute for Public Policy Research (TEN0029)
[17] CBAMs consider explicit carbon prices paid by producers via, for example, carbon taxes, but not implicit carbon prices, such as the costs of compliance with local environmental regulations. Additionally, beyond carbon emissions, CBAMs do not capture other environmental impacts of production, such as biodiversity loss and water pollution – Dr Giulia Claudia Leonelli (TEN0008); WWF-UK (TEN0022); Greener UK (TEN0027).

Second, there is the issue of the UK's border infrastructure. Rigorous vetting of the carbon content of incoming goods would be required at the UK's borders at a time at when it is already suffering from considerable border delays. The Government would therefore need to consider the costs involved in upgrading border infrastructure.[18]

Third, there are concerns about the impact on developing countries. CBAMs may penalise developing countries whose exporters lack the technology or capital to decarbonise their production processes.[19]

There are alternatives to CBAMs. Multilaterally-agreed carbon pricing can obviate the need for adjustments to be levied at the border.[20] Another option is that the Government could set minimum environmental standards for imports to cover a wider range of potential harm including biodiversity loss, water pollution and animal welfare.[21]

Neither of these alternatives is ideal. Mechanisms for the consistent measurement and pricing of carbon emissions on a cross-jurisdictional basis will take time to negotiate. Setting minimum environmental standards on imports could also still put developing country producers at a disadvantage, unless there is a waiver.[22]

For now, it is our view that a CBAM may represent a useful transitional tool, pending a more thorough international agreement on carbon measurement and pricing. We understand that the Government is currently conducting a consultation on carbon leakage mitigation options, which include consideration of a CBAM.[23]

We ask:

4. *What is the timescale for the Government's consultation on carbon leakage mitigation—and when will the findings be published?*

Carbon measurement standards vary across jurisdictions and the task of calculating carbon emissions on a given product is further obfuscated by the complexity of supply chains.[24] Taken together, we share the concern raised in evidence that these factors may incentivise offshoring, exacerbating the problem of carbon leakage.[25]

Product labelling

From a consumer perspective, there are inconsistent standards of labelling for the environmental impacts of products.[26] These standards also often fail to account for carbon emissions produced throughout a product's lifecycle.[27] This is despite the fact that

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[18] Association For Renewable Energy And Clean Technologies (TEN0014); Carbon Capture And Storage Association (TEN0016)
[19] Traidcraft Exchange (TEN0012)
[20] UK Professional and Business Services Council (TEN0021); City of London Corporation (TEN0036)
[21] Compassion In World Farming (TEN0001); National Farmers' Union (TEN0004); WWF-UK (TEN0022)
[22] Dr Giulia Claudia Leonelli (TEN0008)
[23] Environmental Audit Committee, Second Special Report of Session 2022–23, *Greening imports: a UK carbon border approach: Government Response to the Committee's Fifth Report of Session 2021–22,* HC371, p 2
[24] Department of Geography, Royal Holloway, University of London (TEN0002)
[25] Institute for Public Policy Research (TEN0029)
[26] Frugalpac (TEN0005); The Association for Renewable Energy and Clean Technologies (TEN0014)
[27] Frugalpac (TEN0005); The Association for Renewable Energy and Clean Technologies (TEN0014)

a recent survey by the consumer body Which? has indicated that the environment and climate change are key priorities for British consumers.[28]

We therefore ask:

5. *Will the Government consider:*
    a. *standardising life cycle assessment methodology; and*
    b. *instituting a traffic-light system of labelling for consumer products, similar to the nutritional information in use for food products?*

Investment support for "green" goods and services

The UK is well-placed to gain a competitive advantage in "green" trade.[29] In this regard, our evidence welcomed UK Export Finance's Export Development Guarantee and General Export Facility, both of which have received a positive appraisal from stakeholders for providing British exporters with access to capital.[30]

However, it was noted in evidence that support schemes can be difficult for exporters to navigate, fragmented as they are across different sectors.[31] Similarly, regulations concerning environmental goods and services vary between jurisdictions, further complicating the task of UK firms seeking to trade internationally.[32]

DIT launched Clean Growth programme at COP26, but has provided few concrete details of how the programme works, or how exporters can capitalise on it.[33]

We ask:

6. *What steps is the Government taking to promote the development of consistent regulations for "green" goods and services at the international level (through, for example, regulator-to-regulator co-operation)?*
7. *When will the Government publish further details about how the Clean Growth Programme works?*

Liberalisation of trade in "green" goods and services

Our evidence welcomed your department's moves to liberalise the trade in environmental goods via its reforms to the UK Global Tariff.[34] However, some submissions argued that it should drive this liberalisation agenda further by, for example, focusing on environmental services (in addition to goods).[35]

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[28] Which? (TEN0030). See also: Which?, Are the UK's trade deals reflecting consumer priorities?, 6 December 2021.
[29] NatWest (TEN0018); Department of Geography, Royal Holloway, University of London (TEN0002).
[30] NatWest (TEN0018), British Exporters Association (TEN0020). See also: International Trade Committee, Second Report of Session 2021–22, *UK Export Finance*, HC 126, para 29
[31] NatWest (TEN0018)
[32] UK Professional and Business Services Council (TEN0021)
[33] "Trade Secretary steps up export support for clean growth businesses", Department for International Trade press release, 11 November 2021
[34] Traidcraft Exchange (TEN0012); WWF-UK (TEN0022); Greener UK (TEN0027); Institute for Public Policy Research (TEN0029)
[35] Greener UK (TEN0027); Institute for Public Policy Research (TEN0029); Department for International Trade (TEN0034); City Of London Corporation (TEN0036)

We share concerns expressed in evidence about the Government's decision not to join the Agreement on Climate Change, Trade and Sustainability (ACCTS).[36] Joining would enable the UK to partner with existing members (Costa Rica, Fiji, Iceland, New Zealand and Norway) in facilitating efforts to liberalise trade in environmental goods and services, standardise consumer labelling and restrict international investments in the fossil fuel industries.[37]

We are unconvinced by the reasoning that the Government has offered for not joining ACCTS. If the Government is aiming to liberalise tariffs on green goods and services, it is unclear how acceding to ACCTS would constrain the UK in future FTA negotiations;[38] neither is it clear that new members of the agreement will not enjoy the same rights as founding members.[39]

In closing, we ask:

8. *Will the Government reconsider its decision not to join ACCTS?*

[36] Fairtrade Foundation (TEN0003); Aldersgate Group (TEN0007); Traidcraft Exchange (TEN0012); Greener UK (TEN0027); Institute for Public Policy Research (TEN0029)
[37] Aldersgate Group (TEN0007); Traidcraft Exchange (TEN0012); Institute for Public Policy Research (TEN0029)
[38] Aldersgate Group (TEN0007); Traidcraft Exchange (TEN0012); Greener UK (TEN0027); Institute for Public Policy Research (TEN0029); City Of London Corporation (TEN0036)
[39] "UK refuses to join trade pact to end fossil fuel subsidies, eliminate tariffs on green goods", Politico, 11 November 2021; "Clean Free Trade: Championing free trade, economic growth and the environment", Centre for Policy Studies, 22 July 2021