

# Evidence Submission

## Trade and the environment

**Submission by the Institute for Public Policy Research (IPPR)**

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1. With the UK government developing its post-Brexit independent trade agenda and recently setting out its net zero strategy, there is a growing interest – both domestically and globally – in the intersection of trade and environmental policies. While trade policy can help support environmental objectives – for instance, through promoting trade in environmental goods and services – it can also create new barriers and challenges – by eg placing constraints on domestic environmental action or facilitating carbon leakage. This policy note explores the extent to which the UK government’s trade and environmental policies are aligned and the opportunities for how UK trade policy can promote its environmental and climate ambitions.

## OVERALL APPROACH

2. The government increasingly recognises the importance of the intersection of the trade and environmental agenda. The international trade secretary has spoken of the critical role of trade policy in facilitating the green transition and highlighted the Department for International Trade’s support for the government’s COP26 objectives (House of Commons 2021). In 2021, the UK Board of Trade published a comprehensive report on green trade, which argued that the UK was ideally placed to bring together trade and environmental policy and that green trade offered significant opportunities for economic growth (UK Board of Trade 2021). In September 2021, UK Export Finance published its climate change strategy for the next three years, which set out plans for increasing support for clean growth projects and decarbonising its financial portfolio (UK Export Finance 2021). The government has also used its G7 presidency to make the case for reform at the WTO to help green global trade (DIT 2021a).
3. However, despite promising language on trade and the environment, there has been less progress in practice. The government has not set out an overall trade strategy and it is unclear how it is approaching green issues when negotiating bilateral/multilateral free

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trade agreements. It has yet to take a firm position on a number of critical trade and environmental issues, including on carbon leakage and border adjustments. The government's net zero strategy only dedicated one page to trade policy (BEIS 2021). In our view, there are considerable opportunities for ambitious and innovative policy development on trade and the environment, but so far the government has been cautious in pursuing this agenda.

4. Below we consider some specific areas where trade and environmental policy intersect and assess the extent to which government policy is well-aligned.

## PROMOTING TRADE IN ENVIRONMENTAL GOODS AND SERVICES

5. One of the most important ways in which trade policy can support environmental objectives is to promote trade in environmental goods (eg solar panels and bicycles) and environmental services (eg waste and recycling services). This can be done by the reduction of tariff and non-tariff barriers.
6. The UK has made some progress in this area: in transitioning to the new UK Global Tariff after leaving the EU, it unilaterally removed tariffs on a further 133 product categories and sub-categories identified as environmental goods (Riddell and Lowe 2021). But there are opportunities to liberalise trade in other products where tariffs are still high, including electric cars and bicycles (ibid). Moreover, there is also scope to go further in multilateral discussions: the UK has so far declined to enter into negotiations on the Agreement on Climate Change, Trade and Sustainability (ACCTS), which is intended to cover provisions on liberalising trade in environmental goods and services (New Zealand Government 2019).

## PHASING OUT ENVIRONMENTALLY HARMFUL SUBSIDIES

7. Another key area where trade and environmental policy intersect is the issue of environmentally harmful subsidies. In particular, there is growing global attention on addressing environmentally damaging market distortion caused by fossil fuel support measures and fisheries subsidies (UK Board of Trade 2021).
8. There are some positive signs from the UK on tackling environmentally harmful subsidies: it has recently ended export finance and trade promotion for new fossil fuel projects and supported multilateral efforts on phasing out fossil fuels and fisheries subsidies (ibid). However, there is still much more to be done: in 2020, the UK ranked joint lowest for its record on fossil fuel funding on a list of OECD member countries of the G20, due to poor transparency and its high support for fossil fuel use (Geddes et al 2021). As noted above, it has also declined to participate in ACCTS negotiations, which includes a focus on eliminating fossil fuel subsidies (New Zealand Government 2019).

## NEGOTIATING ENVIRONMENTAL COMMITMENTS WITHIN FREE TRADE AGREEMENTS

9. Free trade agreements often include chapters with commitments on upholding and strengthening environmental standards and reaffirming support for multilateral environmental treaties. Generally, these commitments are governed separately to the main body of the agreement and can be hard to enforce in practice. However, there is increasing momentum towards explicitly tying environmental provisions to market access in free trade agreements (ie making access conditional on upholding environmental commitments).
10. The UK's record on environmental commitments within free trade agreements is so far mixed. The government has set out an ambitious plan to negotiate new free trade agreements in light of its withdrawal from the EU. Aside from securing 'roll-over' agreements largely replicating arrangements it had as an EU member, so far the most progress has been with Australia and New Zealand. Both the UK-Australia and UK-New Zealand free trade agreements contain trade and environment chapters, including a provision on not waiving or derogating from environmental laws in order to encourage trade or investment (often referred to as a non-regression clause) (DIT 2021b; DIT 2022). A comparison of the two texts suggests that the New Zealand agreement is considerably more ambitious: for instance, the provisions on climate change are more detailed and include references to net zero targets; the text on environmental goods and services includes a specific list of products for tariff elimination; and there is an article on fossil fuel subsidy reform which is absent from the Australia agreement (ibid). Moreover, there are signs that the text of the UK-Australia agreement is not as ambitious as the UK would have liked: reports have suggested that the UK watered down its proposed climate asks in order to secure a deal (Coates 2021).
11. Finally, it is important to note that the UK-EU Trade and Cooperation Agreement (TCA) itself contains some strong environmental commitments - including obligations on carbon pricing, provisions for 'rebalancing measures' in the event of future regulatory divergence, and the incorporation of climate action as an 'essential element' of the agreement (Gehring 2021). However, many of these commitments were a result of EU negotiating objectives - it is clear from the initial draft negotiating texts that the UK sought to weaken the proposed 'level playing field' provisions in order to maximise its regulatory autonomy.
12. The outcomes of these negotiations therefore suggest that the UK has the potential to incorporate ambitious environmental and climate provisions into its free trade agreements, but it is also willing to weaken these provisions to get deals over the line. Without a fully-fledged commitment to pursue ambitious environmental policy through its trade negotiations, there is a risk that as the UK secures further agreements its environmental and trade objectives become increasingly misaligned.

## ADDRESSING CARBON LEAKAGE

13. In recent years, there has been growing international concern over 'carbon leakage' - that is, where efforts to reduce carbon emissions in one country are counteracted by the displacement of emissions to countries with weaker climate policies. This may happen because industries in countries with stricter climate rules decide to relocate to countries

with less stringent legislation to save on costs. While there is currently limited empirical evidence of carbon leakage in practice, countries are concerned that, as they ramp up their climate policies, they will face a competitive disadvantage and their decarbonisation efforts will be undermined by emissions shifting abroad (Morris and Nanda 2021).

14. A number of potential responses have been proposed to address the risk of carbon leakage (HMT 2021):
  - a. Countries can offer exemptions or compensatory measures for industries at risk of carbon leakage – for instance, free allowances under the EU’s emissions trading scheme (ETS). This is the current approach of the UK under its post-Brexit ETS.
  - b. Countries can introduce carbon border adjustment mechanisms (CBAMs) to impose charges on imports in line with their carbon content (ie the carbon dioxide emitted during their production), so that domestic and imported products face equivalent costs. The EU has recently proposed introduced a CBAM targeting sectors it considers at particular risk of carbon leakage, including iron and steel, cement, fertiliser, aluminium, and electricity (EC 2021a).
  - c. Countries can introduce mandatory product standards to prevent imports of products with high levels of embodied carbon emissions.
  - d. Countries can work together to more effectively coordinate their carbon pricing and climate policies.
15. The UK’s position on carbon leakage is currently unclear. The preference appears to be to manage the risk of carbon leakage through greater voluntary international cooperation (House of Commons 2021). However, it is uncertain what this means in practice and in the meantime the UK appears out of step with developments from other major trading partners. The US and the EU have recently begun negotiations on a Global Arrangement on Sustainable Steel and Aluminium, aimed at reducing carbon intensity and tackling overcapacity, but it is not clear whether the UK will participate (EC 2021b).
16. There is now an opportunity for the government to more effectively align its trade and climate agendas by outlining a clearer position on how best to respond to carbon leakage. As a first step, the UK could push to accelerate international efforts to coordinate approaches for calculating and tracking carbon content, which would be an important precursor to more substantive collaboration on addressing carbon leakage concerns. It could also signal a willingness to participate in discussions on the Global Arrangement on Sustainable Steel and Aluminium, in light of the current UK-US negotiations on steel tariffs.

## UPHOLDING ENVIRONMENTAL STANDARDS

17. A particularly contentious area of trade and environmental policy is the debate over the interaction of free trade and environmental standards. Many environmental and consumer groups have expressed concerns that the facilitation of trade – through, for instance, new trade agreements – can undermine domestic standards, particularly in the case of agri-foods. Various policy options have been discussed for addressing these concerns – for instance, upholding high environmental protections through international negotiations,

voluntary labelling schemes, and/or mandatory import standards (Baldock 2020). The latter, however, can be controversial when they relate to process and production methods (PPMs), because WTO rules prevent discrimination between 'like' products (ibid).

18. The UK government has repeatedly committed to upholding high environmental standards post-Brexit. In practice, however, the government's actions have at times failed to match these commitments. While the government has promoted international cooperation on raising standards, it has resisted the use of trade levers to compel policy change (DIT 2021c). Moreover, there are concerns from farmers and environmental groups that new free trade deals with Australia and New Zealand will facilitate the import of agri-food goods made with lower production standards (House of Commons 2022).

## CONCLUSION

19. The government has made a number of promising public statements on the interconnections between trade and environmental policy and on promoting green trade. However, there is a significant risk that the government's approach to trade policy – focused primarily on securing multiple trade deals, without a clear strategy – will undermine its aims on climate and the environment. In order to more effectively align trade and environmental policy, the government should set out its planned approach in the areas discussed in this policy note, including on carbon leakage, core environmental standards, and the negotiation of environmental and climate provisions in future free trade agreements.

## ABOUT IPPR

20. **IPPR, the Institute for Public Policy Research**, is the UK's leading progressive think tank. We are an independent charitable organisation with our main office in London. IPPR North, IPPR's dedicated think tank for the north of England, operates out of offices in Manchester and Newcastle, and IPPR Scotland, our dedicated think tank for Scotland, is based in Edinburgh.
21. Our primary purpose is to conduct and promote research into, and the education of the public in, the economic, social and political sciences, science and technology, the voluntary sector and social enterprise, public services, and industry and commerce.
22. We are submitting this evidence on the basis of our current work on trade policy, in particular our recent report 'Towards a Progressive US-UK Trade Partnership'. The report explores how the UK and the US can work together on trade and climate initiatives, including in relation to tackling carbon leakage.

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