

SUBMISSION FROM THE COUNCIL ON GEOSTRATEGY

INTERNATIONAL TRADE COMMITTEE'S INQUIRY ON 'TRADE AND THE ENVIRONMENT'

1. The Council on Geostrategy is an independent non-profit organisation situated in the heart of Westminster. We focus on an international environment increasingly defined by geopolitical competition and environmental crisis. Our vision is a united, strong and green Britain, which works with other free and open nations to compete geopolitically and lead the world in overcoming the environmental crisis – for a more secure and prosperous future.
2. The author specialises in net zero and climate policy, including clean trade, and worked with William Young to publish [Critical minerals: Towards a British strategy](#) in November last year. His knowledge and experience leaves him confident in offering this evidence in support of the International Trade Committee's inquiry on 'Trade and the Environment'.
3. Since the United Kingdom (UK) was the first major economy to set a Net Zero target in 2019, [90% of global GDP has come under Net Zero targets](#). There has also been an increasing desire for action among nations on climate change since the 2015 Paris Agreement, something which was further demonstrated in Glasgow last year.
4. The Office for Budget Responsibility's (OBR) [fiscal risks report](#) and the International Panel on Climate Change's [sixth assessment report](#) also showed that our economic prosperity is now heavily dependent on taking action on climate change. Left unchecked, climate change will cause immense damage to the global economy.
5. Net Zero industries and technologies can foster economic prosperity. Electric vehicles, renewable energy, carbon capture and storage, clean hydrogen, and sustainable aviation are just some of the key sectors that the UK could benefit from. These industries can lead to more jobs and tax revenue, as well as co-benefits like a more secure energy supply, cleaner air, and lower costs of production for electricity.
6. A clean trade agenda could support Her Majesty's (HM) Government's 'Global Britain', Net Zero, and 'levelling up' agendas. It could help reduce the costs of decarbonisation for HM Government, consumers, and industry; scale up the industries and technologies that the UK will inevitably rely on for export; diversify critical mineral supply chains and energy for greater security; and bolster the UK's current position as a global climate leader.
7. This submission makes three recommendations for examination:
 - a. **Carbon border adjustment mechanisms (CBAMs);**
 - b. **Overseas Development Assistance (ODA) for clean trade;**
 - c. **Expansion of the green list and restarting the Environmental Goods Agreement (EGA) negotiations.**

Carbon border adjustment mechanisms

8. For more in-depth analysis on CBAMs from the Council on Geostrategy, read '[When climate and trade combine: British policy options](#)'.
9. A CBAM is likely necessary for a successful transition to a Net Zero economy. It would help level the playing field as we decarbonise, even if others free-ride, by protecting industries as they decarbonise from being undercut by dirtier competitors. It should be an indiscriminatory tool to prevent carbon leakage, not a revenue-raising mechanism or a way to punish certain countries. Smaller and developing economies which may be negatively impacted could be supported with other measures to support technological upgrades or innovation as part of a multilateral effort to develop a fair method of implementing CBAMs.
10. The European Union (EU) is unilaterally [developing](#) its own CBAM. From 2023, a reporting system will apply for targeted products (iron and steel, cement, fertiliser, aluminium, and electricity generation) with the objective of enabling a smooth roll out and to facilitate dialogue with third countries. Importers will start paying a financial adjustment in 2026. It is so far alone in putting forward a concrete proposal, with the United States (US) having a lukewarm approach due to concerns for free trade.
11. The Peterson Institute for International Economics [recommended](#) that the World Trade Organisation (WTO) should step in to help coordinate the implementation of climate and trade policies in order to reduce the risk of conflict, and the ability for their use as a vehicle for 'green protectionism'.
12. The UK would have an interest in the development of a CBAM given it is one of the front runners in the Net Zero transition. We would not, however, necessarily benefit from simply copying the EU's model, which is the only one under development at the moment.
13. Instead, we should channel the widespread developed world interest in pre-empting carbon leakage and enthusiasm for the CBAM concept into a multilateral process. This may help to develop a legitimate 'gold standard' CBAM which would prevent major economies (such as the US, the People's Republic of China (PRC), and G7 countries) from undercutting each other without unfairly penalising smaller and developing countries.
14. A key disadvantage of this approach would be that the timeframe for implementation would almost certainly be greatly extended, especially were the forum to be the WTO. This may reduce the appetite for decarbonisation and transition measures that would be the most cost-effective in the long run if we begin to implement them now. This risks jeopardising growth in new industries and our decarbonisation targets. A multilateral process, however, would make the CBAM more legitimate.
15. Any negative impacts on developing countries could be mitigated with foreign aid budgets to support industries affected by barriers on carbon intensive goods. This would allow them to develop domestic carbon prices, or convert specific industries to low carbon production. This brings us to our next recommendation.

Overseas Development Assistance (ODA) for clean trade

16. At COP26, a group of democracies launched a new International Energy Transition Partnership with South Africa to support its decarbonisation efforts. US\$8.5 billion (approx £6.25 billion) is being mobilised for the first phase of financing; a mixture of public and private finance through various mechanisms including grants and concessional loans, as well as investments and risk sharing instruments. It will support South Africa in moving away from its dependence on coal towards cleaner sources of energy, whilst simultaneously reducing the impact such a transition will have on mining communities.
17. Leveraging the example of the South Africa transition deal, we could provide financial assistance to developing countries to support their energy transition and the capital costs associated with reducing emissions in their carbon-intensive sectors. These deals could likewise be used to develop alternative revenue streams to those which deforestation provides.
18. Helping developing countries to simultaneously decarbonise and upgrade their economies through a more direct, bilateral, or multilateral, basis could well be a way to compete with the PRC's Belt and Road Initiative. HM Government ought to work with its allies to mobilise more finance and target support for developing nations of strategic importance. Strong candidates include nations such as Brazil, Chile, Indonesia, India, Nigeria, the Democratic Republic of Congo, Kenya, and Vietnam.
19. Speaking more strategically, it could also help open nations push back against the detrimental effects of ill-conceived loans issued by the PRC to economically vulnerable countries. They would also help facilitate more cooperation with strategic allies for security, economic, and environmental gains.

Expansion of the green list and restarting the EGA negotiations

20. Britain has already used its new independent trade policy to reduce barriers to trade in environmental goods and services, including through the UK Global Tariff (UKGT), launched at the beginning of 2021. The UKGT removed tariffs on over 100 green goods – the 'green list'.
21. As the Board of Trade's [Green Trade report](#) says, the green list will promote the deployment of renewable energy generation, energy efficiency, carbon capture, and the circular economy through recycling and reducing single-use plastics. The UK now has zero tariffs on around two thirds of the goods covered by the EGA negotiations. This means it is cheaper for British industry and consumers to access these products, in turn making decarbonisation cheaper.
22. The UK would benefit from unilaterally expanding the green list to cover more products. It would reduce the cost of decarbonisation and demonstrate leadership in the climate space during the year of the UK's COP presidency. This is arguably a natural step for 'Global Britain', which seeks to encompass security, climate, and trade into a broad foreign policy. Though, as ever with unilateral tariff cuts, this may be giving away cards which could be used in later trade negotiations.
23. The Secretary of State for International Trade should also move to restart the EGA negotiations at the 12th Ministerial Conference later this year. The talks came to a halt in 2016 and have not got off the ground since. There may be concerns that the PRC would be

involved in these negotiations if they were restarted, and that eliminating tariffs may make it more difficult to diversify critical supply chains, such as for lithium batteries, where the PRC has dominance over the market. This is the tension in trade policy which is likely to occur regularly in an era of increased geopolitical competition.

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