

## **Annex A – HM Government Response to the International Trade Committee’s Call for Evidence on Trade & COP26**

### **How can international trade and investment contribute to realising the goals of COP26?**

1. International Trade and Investment will be crucial to delivering global climate goals, as set out in the recently published Board of Trade report. Specifically, trade and investment can:
  - a. Reduce the cost of green goods, services, and technologies, and speed their uptake around the world.
  - b. Increase the efficiency of production through specialisation.
  - c. Boost economic growth, development, and social welfare, which can increase capacity to manage the environment more effectively, and
  - d. Support developing countries to mitigate, adapt, and build greater resilience to climate-related shocks.
2. The Department for International Trade (DIT) is embedding the climate and clean growth agenda across its central functions. The Department has established a clean growth team and an international clean growth campaign focused on investment into, growth, and export of clean goods and services, responding directly to the Prime Minister’s 10 Point Plan. The government is also working through trade policy mechanisms to reduce barriers to green trade and has through UK Export Finance established a £2 billion clean growth direct lending facility to support green exporters.

### **Are international trade and investment likely to feature in the high-level negotiations at COP26?**

3. Whilst crucial to realising climate ambition, the government does not expect trade and investment to be heavily featured during the high-level negotiations. These will instead focus on finalising the Paris Rulebook and driving forward the high-level ambition and action needed to deliver on the Paris Agreement – demonstrating a collective ability to hold temperature rises to 1.5 degrees, adapting to protect communities and natural habitats, and mobilising finance. However, trade and investment remain critical to delivering on COP26 ambitions so may be touched on in discussions, for example around the work of the COP26 supported Forest, Agriculture and Commodity Trade Dialogue.
4. Outside of COP26 negotiations, the government remains committed to ensuring that it is leveraging the UK’s independent trade policy to accelerate action on climate change and nature loss objectives.

### **What are the possible impacts of climate change on international trade and investment?**

5. The recent Board of Trade report sets out several possibilities:
  - a. **Increasing the frequency and severity of climate-related shocks, which can disrupt production, supply chains, trade infrastructure and transport routes, raising the costs and risk of operating in climate vulnerable regions.** For example, natural disasters caused almost \$3 trillion of economic losses worldwide between 2000 and 2019 – nearly double the losses incurred during the previous 20 years (adjusted for inflation). Individual events are also becoming more costly. For example, in 2016 a tropical cyclone wiped out more than a third of Fiji’s GDP in 36 hours.

Written evidence submission from Department for International Trade (COP0020)

6. These trends pose serious risks of more frequent and severe shocks to maritime shipping (which accounts for 80% of global trade volumes), international supply chains, and trade infrastructure. Climate risks are not distributed evenly across the globe but, due to the interconnected nature of the global economy, shocks overseas are rapidly transmitted around the world. For example, the 2011 floods in Thailand caused significant global disruption due to the closure of more than 7,000 industrial manufacturing plants that were highly integrated into global value chains.
  - a. **Contributing to structural shifts in the global economy and reshaping trade patterns that could put the global trading system under strain.** For example, under a scenario where global average temperatures rise by 2.6°C above pre-industrial levels, the world economy could be 10% smaller by 2050 than if the Paris temperature target of keeping the increase to well below 2°C and as close as possible to 1.5°C is achieved. These losses will not be evenly distributed – OECD economies could be 5% smaller on average by 2050 while economies in Southeast Asia could be up to 25% smaller. This unequal impact is also likely to be felt within sectors – with agriculture, green sectors of the future, and existing high-carbon industries particularly affected. Unequal impacts could stoke tensions between countries, raising the risk that trade is increasingly used as a policy lever to gain strategic advantage.
7. **To what extent does the Government’s trade policy align with the objectives of COP26? This includes, but is not limited to, its actions at the WTO, its G7 presidency, and its bilateral and plurilateral trade agenda.**
8. The government is supporting both climate change mitigation and adaptation by using its new independent trade policy to:
  - a. **Encourage the uptake and spread of clean technologies, efficient production methods and green goods and services by eliminating tariffs and non-tariff barriers to trade.** For example, last year, the government launched the UK Global Tariff, which removed tariffs on 104 environmental goods, helping to promote the deployment of renewable energy generation, energy efficiency, carbon capture and the circular economy through recycling and reducing single-use plastics.
  - b. **Address market distortions that warp trade flows and propagate over-consumption of environmentally wasteful practices.** For example, in December the Prime Minister announced a world-leading policy to end the government’s international support for the fossil fuel energy sector overseas.
  - c. **Seek to support and help further the Government’s ambition on climate change in Free Trade Agreements.** In negotiations, the government is making the case for free and open trade in a way that supports its climate change and nature objectives. This includes seeking provisions that maintain the right to regulate in pursuit of decarbonisation and affirm the government’s commitment to implement the Paris Agreement.

**What discussions, if any, are planned to develop a multilateral approach to carbon pricing systems (including border adjustment mechanisms), green subsidies and investment funds, the curbing of fossil fuel subsidies, a circular economy and sustainable supply chains?**

9. In the DIT Secretary of State’s maiden speech to the WTO General Council in March 2020, it was set out that the environment, including climate change, would be one of the government’s three key priorities (alongside digital innovation and service liberalisation) for

Written evidence submission from Department for International Trade (COP0020)  
UK ambition and leadership at the WTO, in recognition of the need to drive multilateral action on green trade issues.

10. In particular, the government aims to promote trade in green goods and services and, as mentioned previously, signalled this by taking an initial step and eliminating tariffs on environmental goods in the UK Global Tariff. Additionally, the UK co-sponsored the environmental services exploratory paper at the Council in Services- Special Session (CTS-SS) in October 2020 at the WTO, which proposes improvements to the overall coverage of GATS commitments in environmental services.
11. Equally, the government is focused on addressing harmful market distortions and failures. For example, the UK has been a longstanding supporter of Fossil Fuel Subsidy Reform efforts and, in December 2020, the government announced its support for the “Statement on Global Fossil Fuel Subsidy Reform” of the Friends of Fossil Fuel Subsidy Reform group, with the aim of building political consensus on the importance of fossil fuel subsidy reform. The government is also committed to ensuring that its ambitious climate policy does not lead to carbon leakage, including reviewing its current approach to Free Allocation of allowances (within the UK Emissions Trading Scheme, which effectively puts a price on carbon generated in production) and engaging on the issue in various international fora.
12. To progress discussions on a range of green trade issues, the government joined the Trade and Environmental Sustainability Structured Discussions (TESSD) in the WTO when it was launched in November 2020, and are actively working with trade partners through this forum in the run-up to the Twelfth WTO Ministerial Conference (MC12).
13. The COP26 nature campaign is focused on shifting international agricultural commodity supply chains towards sustainability, to protect forests and other ecosystems whilst promoting sustainable trade and development. This is primarily being delivered through the Forest, Agriculture and Commodity Trade (FACT) Dialogue, a ground-breaking partnership between governments of producer and consumer countries committed to taking action to transition to more sustainable commodity production and global trade. Supporting actions of the FACT Dialogue also seeks to raise ambition and secure tangible commitments from private sector actors in securing sustainable supply chains.

### **What impact could an agreement on finance at COP26 have on trends in international investment?**

14. At COP26, the world must get on track to achieve the goal - agreed in Paris – to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. This means directing all financial flows to achieving the Paris goals on mitigation and adaptation and supporting developing countries to take climate action and benefit from the economic opportunities the transition provides.
15. COP26 must identify a clear pathway to mobilise the trillions of investment needed, with renewed efforts by all actors, to send a clear signal that the shift to low carbon, climate resilient finance is irreversible. The mobilisation of increased flows of private finance is crucial to this. The UK Presidency is working with other donors and multilateral development banks (MDBs) in collaboration with governments, to promote and support a range of targeted initiatives that tackle barriers to, and promote investment into, developing countries; such supporting new market structures, improving policy environments, de-risking investments and creating incentives for deal flow. Such initiatives, and a wider collective push from across the financial system, will significantly increase trends in international investment. This includes the Glasgow Financial Alliance for Net Zero, which

Written evidence submission from Department for International Trade (COP0020) now includes 250 firms representing \$88trn of assets, to enable the financial sector to support the global transition to net zero, solve challenges and realise opportunities together.

**What engagement has there been between the COP26 Unit and the Department for International Trade on the Government's agenda for its Presidency?**

16. DIT's COP26 team has been in continuous contact with the COP26 Unit since its inception. Prior to the formation of DIT's formal COP26 team in October 2020, communication between the COP26 Unit and DIT was primarily led by DIT's Clean Growth team. DIT is in regular communication with teams across the COP26 Unit, covering work streams including domestic and international business engagement, and operational delivery of COP26 pavilions.
17. To date DIT has delivered most of the COP26-linked engagement with business across government. In parallel to promoting COP26 business engagement objectives, DIT is working to seize every trade and investment opportunities arising from these engagements.
18. In addition to work to support business engagement, DIT is supporting the delivery of the summit itself through leading on the showcasing element of the UK's presidency pavilion in the blue zone and leading the sift of the technology and innovation showcasing in the green zone. This work has seen significant collaboration not only between DIT and the COP26 Unit, but other government departments including BEIS, DEFRA and FCDO.