THE NEW FRONTIER

HARNESSING TRADE POLICY TO SUPPORT OUR CLIMATE GOALS

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Executive summary

The synergy between international trade and environmental policy has grown more prominent, but the potential to leverage trade policy to support the sustainability agenda has yet to be fully utilised.

Trade has a powerful track record in reducing poverty, increasing prosperity, and promoting more efficient use of natural resources. However, perceptions remain that international trade is an obstacle to protecting the environment –something that the CBI believes must be analysed in more detail as the threat of climate change increases around the globe.

Free and fair trade in and of itself is not an obstacle to environmental progress, but it could be better harnessed to support the green transition:

- Reducing tariff and non-tariff barriers on environmental products can enhance access to the goods and services that accelerate the greening of our economies.
- FTAs, bilateral and multilateral cooperation, including at the WTO and OECD, provide opportunities to promote robust sustainability standards, more access to trade finance, improve supply chain transparency and sustainable production, and decipher the best route to reduce the risk of carbon leakage.

International trade urgently needs to adapt to the realities of the twenty-first century and the Paris Climate Agreement commitments. The UK has a golden opportunity to lead this green revolution, and to internationalise domestic progress by augmenting the government's Export Strategy with an added green focus, solidifying the global approach to green finance, and advocating for greener international institutions that promote trade and investment.

As the UK is hosting the United Nations 26th Conference of the Parties (COP26) climate summit in 2020 and the Group of Seven (G7) in 2021, there is additional scope to shape the global agenda. Business stands ready to do its part and believes that trade, technology and multilateral cooperation can ensure that international trade policy becomes integral to the fight against environmental degradation and climate change.

Recommendations from business to governments

1. Establish joint governmental and non-governmental committees among FTA partners to deliver measurable and robust environmental and sustainability standards alongside FTAs.
2. Commit to Sustainability Impact Assessments in FTAs, with pre and post-ratification studies to identify where progress is required on sustainability.
3. Urgently finalise WTO negotiations on the Environmental Goods Agreement (EGA).
4. Protect and strengthen trade in green products by expediting bilateral or regional EGAs for goods and services, and introduce moratoria for new tariffs on such products.
5. Introduce accelerated tariff reductions in FTAs and multilateral agreements for partner countries who meet or surpass their Paris Agreement emission reduction targets.
6. Intensify efforts to help smaller firms and those in developing countries transition to the opportunities of sustainable production.
7. Develop bilateral and multilateral platforms through the WTO and OECD to reduce non-tariff barriers for green trade and services.
8. Commence discussions at the WTO and OECD on the most appropriate mechanism to protect competition in hard-to-decarbonise sectors and mitigate carbon leakage.

Recommendations from business to the UK government

1. Augment the UK's Export Strategy with a green trade focus ahead of COP26.
2. Commit to prioritising trade and climate action during the UK's G7 in 2021.
3. Take the lead in greening international institutions, including through a more systematic WTO-UNFCCC dialogue.
4. Assess the possibility of hypothecating the revenue from the UK's Carbon Pricing regime and dispersing this revenue.
5. Capitalise the British Business Bank with the resources needed to expand its role and create a fund that promotes green finance for SMEs.

The relationship between trade and the environment

The concept of a climate emergency is gaining traction around the world and newspaper columns are filled with the words, actions and concerns of Greta Thunberg, Extinction Rebellion and many others urging that the future of our world is dependent on the decisions we take now to protect it. Trade can be a positive part of this agenda.

The benefits of international trade

There are many direct and indirect applications of international trade that can be harnessed to meet social and environmental goals. International trade has helped lift 1.1 billion people out of poverty since 1990. Global commerce has also led to more efficient supply chains, as countries and regions focus on areas where they enjoy a comparative advantage.[1] Meanwhile, through global trade and investment businesses are a key driver of innovation and research globally. Firms have a huge footprint, extensive supply chains, millions of international employees, and facilitate the transfer of technology and know-how between the private sector in developed and developing countries. Innovations, like drones, are being used to survey land and plant seeds, while new solar-powered refrigerators are being used to store vaccines on the go.

While there is sometimes a perception that trade is inherently at odds with sustainability, recent data shows that the volume of global trade has grown more rapidly than the carbon emissions embodied in it, which points to a decoupling of economic growth and CO2 emissions.[2] With appropriate domestic legislation, trade liberalisation can benefit the environment, due to more efficient resource use. Greater trade also means greater product choice and more affordable supply. In relation to environmental protection this provides for an accelerated disbursement of the products and services needed to green economies and adopt more sustainable practices. Trade helps consumers access cheaper and more diverse fair trade and organic products, provides producers with an abundant and profitable market for sustainable goods, and cuts red tape and costs. This all increases the visibility of environmental products.

The relationship between trade and environment policy is increasingly reflected in the political arena. Indeed, recent research suggests that the political link between the environment and trade policy is getting stronger, with Members of the European Parliament (MEPs) less than half as likely not to support the opening of trade negotiations with the U.S. if the MEP in question was in favour of a stronger climate policy in line with the Paris Agreement[3]. Any perception of trade policy as an obstacle to environmental progress must be quickly tackled. It would however be remiss to say that trade policy

[1] Decline of Global Extreme Poverty Continues but Has Slowed, World Bank, 2018
[2] OECD (2019): OECD Trade and Environment Working Paper 2019/01, p.11
[3] Does attaching environmental issues to trade agreements boost support for trade liberalisation?, Bruegel, 2019

cannot be better harnessed, and in some cases, better managed. It is a necessity to utilise the power of trade policy and its multilateral rules to meet our climate targets and improve quality of life and prosperity around the world.

Businesses themselves have a significant and leading role to play delivering on a low-carbon future and the CBI is working with firms to develop this agenda elsewhere. But the scale of the climate challenge is immense. It requires the full and combined attention of firms, government and civil society. Organisations of all kinds must therefore push forward the drive for sustainable economic development. This paper represents a call to action for governments and institutions around the world to modernise and green trade policy to boost prosperity, stimulate innovation and protect the natural environment.

Building on FTAs as a vehicle to boost standards

The challenges of incorporating environmental provisions in FTAs

Environmental provisions frequently feature in Free Trade Agreements (FTAs). 630 FTAs signed between 1947 and 2016 include environmental provisions: exceptions to trade for the conservation of natural resources, the protection of plants or animals, or provisions to tackle illegal trade-related practices, including fishing, mining and logging.[4] However, the language for environment provisions tends to be vague, non-binding and aspirational. The EU currently only has recourse to hard power in the form of sanctions in the area of investment protection, whereas the U.S. has utilised ex-ante conditionality and can even introduce sanctions for non-compliance of labour provisions. This has led to calls for enforceable sustainability standards in EU FTAs, including the possibility of sanctions to leverage third countries into meeting their commitments, helping to deliver a level playing field and enhanced labour and environmental standards. But sanctions remain blunt instruments and run the risk of inciting trade tensions and alienating third country partners.

Delivering discussions on environmental goals alongside FTAs

FTAs must continue to include horizontal ambitions regarding trade and the environment. But, to help improve on existing measures included in them, as well as elsewhere, joint governmental and non-governmental committees should be prioritised to work with international partners to deliver more concrete and measurable environmental commitments. Thus, international standards can be promoted and enforced, while FTA partners remain free to define policies adjusted to the labour and environmental standards they deem most appropriate for their domestic market. This is vital to ensure that the UK

[4] Mapping the Trade and Environment Nexus: Insights from a New Data Set, Morin, Dür and Lechner, 2018

and its trading partners have the flexibility to increase their environmental standards over time, in pursuit of legitimate domestic climate and environmental policy objectives. In this way, buy-in to enhanced domestic standards may be more easily assured from third country producers, as additional obligations will not be imposed upon them externally, but rather built with in-market national experts who are closer to the concerns and priorities of local producers.

Consultation, transparency and cooperation remain the best means to encourage third countries to increase their environmental standards. FTAs are useful vehicles for this and ensuring enhanced information and transparency for decision-makers to assess the environmental facts through sustainability impact assessments (SIAs) can highlight any potential concerns and inform negotiations before ratification occurs. These efforts should be complemented by periodic post-ratification SIAs that identify areas where progress is required, where support would be helpful, and where mutually agreed modifications could be made to the FTA.

Recommendations from business to governments:

- Establish as a default joint governmental and non-governmental committee focused on environmental and sustainability standards to consistently work with FTA partners to deliver and facilitate domestic progress on more concrete and measurable standards.
- Commit to SIAs in FTAs with a pre-ratification study complemented by periodic post-FTA studies to identify where progress is required, where support would be helpful, and where mutually agreed FTA modifications could be made.

The potential of multilateral agreements and tariff reductions to increase green trade

The myth that WTO rules obstruct environmental protections can be swiftly dispelled, so long as members do not discriminate between similar imported and domestically produced products (national treatment principle) nor between similar products from different international partners (most-favoured nation clause- MFN). There is thus an inherent flexibility in WTO rules for domestic environmental policies, but the failure of the Doha Development Round is symptomatic of the WTO's unfilled potential to push the boundaries of trade and environment.

The impact of tariffs on green goods

On average, WTO members still apply MFN rates of around 9% on imports of lithium-ion and other battery components, with some countries still charging tariffs of up to 40%.[5] This leaves such products more expensive, less competitive and limits uptake.

[5] Making trade work for the environment, prosperity and resilience, WTO and United Nations Environment Programme, 2018

For example, World Bank research found that the top 18 developing countries ranked by greenhouse gas emissions would be able to import 63% more energy-efficient lighting, 23% more wind power equipment, and 14% more solar power equipment if the trade barriers these very countries maintain on these goods were abolished.[6]

The problem does not only lie with MFN tariffs, but also the threat of new tariffs, as environmental goods have not been shielded from recent trade wars. Indeed, the introduction of U.S. tariffs on imported solar panels in January 2018 is predicted to lead to an 11% reduction in the growth of U.S. solar capacity between 2018 and 2022.[7] Longstanding and new tariffs on environmental goods only dampen the progress of key green industries around the world and put the brakes on the sustainable transition. These tariffs must be swiftly removed, and moratoria established to ensure that future trade tensions, including on rare earths, do not spill over to damage green supply chains.

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The eradication of tariffs on green goods

There are good examples of progress on environmental tariff reduction. For instance, in 2012 the Asia-Pacific Economic Cooperation economies agreed to cut tariffs to 5% or less on 54 environmental goods covering around $300bn of annual trade in the region. But more can be done at a global level. Although the WTO negotiations on an Environmental Goods Agreement (EGA) have admittedly slowed, the potential benefits from the

[6] International Trade and Climate Change, The World Bank, 2008
[7] New Tariffs to Curb US Solar Installations by 11% Through 2022, GTM Research, 2018

agreement are clear. The EGA has seen 18 WTO members - accounting for most global trade in environmental goods - examine tariff elimination for over 300 environmental products. Zero tariffs would provide government and business with the ability to acquire more and better-quality environmental technologies at lower costs, and would diffuse innovation and technology around the world. Cleaner energy, air, food and water could all be within reach for hundreds of millions more people. This impetus would boost green sectors, supporting economies of scale and providing much-needed additional funding for R&D. Talks on the EGA should be urgently finalised, should regularly consult developing countries to avoid accusations of green protectionism, and the scope should be extended to include as many appropriate goods as possible, taking full account of a good's life cycle. To expedite proceedings, bilateral or regional EGAs with tariff benefits, more flexible rules of origin, and service facilitations should be considered while WTO talks should at the same time be urgently driven forwards by a coalition of the willing.

Governments may also want to consider accelerated tariff reductions in FTAs and multilateral agreements for partner countries who meet or surpass their emission reduction targets in the Paris Agreement. This would provide a beneficial economic outcome directly connected to the domestic challenge of meeting environmental targets and may encourage more developing countries to undertake the required investment in transitioning to a green economy.

Tariff reduction is an eminently deliverable aim. However, average global MFN tariffs have been in steady decline after many years of liberalisation and are already at the relatively low level of around 4.17%[8]. Solely focusing on reducing tariffs will therefore not deliver the required substantial boost in harnessing trade to protect the environment, and there should be an additional focus on non-tariff barriers (NTBs).

Recommendations from business to governments:

- Urgently finalise negotiations at the WTO on the EGA, that involve developing countries in discussions and cover as many products as possible.
- While WTO talks progress, strengthen and protect trade in green products by expediting bilateral or regional EGAs for goods and services and introduce moratoria for new tariffs on such products.
- Introduce accelerated tariff reductions in FTAs and multilateral agreements for partner countries who meet or surpass their Paris Agreement emission reduction targets.

Harnessing consumer power to drive environmental change

Leveraging growth in demand for sustainable products

Sustainable production often implies costlier products, which may not be accessible to all. But, while this may be a challenge for some companies and consumers, there is also a

[8] World Bank data.

clear opportunity, as demand for environmentally friendly goods grows. Indeed, a recent study from Unilever revealed that 21% of consumers would actively choose brands if they made their sustainability credentials clearer on packaging and marketing.[9]

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The green market is booming, and sales of such products grew by 3.5% between 2014 and 2018, compared to only 1% for products without a sustainability label.[10] This includes organic, fair trade or carbon labelling to highlight goods that are made with more environmental care.

Sustainable production has a growing consumer market, is the right direction for companies to be working towards and it can also lead to clear economic benefits. For example, case studies in Vietnam show that sustainability certification for shrimp increased profit margins by up to 15% following increased export opportunities.[11] Sustainable production and its associated certification has the potential to boost yields, jobs and profits. Businesses therefore increasingly recognise the value of sustainability, with 100 of the world's 250 largest companies already reporting on their impact on the Sustainable Development Goals.[12]

[9] Report shows a third of consumers prefer sustainable brands, Unilever, 2017
[10] Small producers need help to enter lucrative "green" markets, United Nations Conference on Trade and Development, 2019
[11] Making trade work for the environment, prosperity and resilience, WTO and United Nations Environment Programme, 2018
[12] How to report on the SDGs, KPMG, 2018

Managing the challenges of differential standards

From a business perspective there are challenges in managing sustainable standards across complex international supply chains. This is because differences and conflicts between standards can represent a challenge for firms when they require contradictory actions from business. For example, the different recycling symbols mandated in different EU Member States can represent a challenge, in particular for small firms, increasing the amount of stock and labels that they are required to hold.

The challenge for small firms is usually significant, since companies of this size often lack the capital and resource to deliver supply chain transparency and sustainable certification. Complying with the EU's novel food legislation to be authorised to sell baobab fruit powder in the EU took two years and more than $250,000[13], whereas annual organic certification costs in Vanuatu range between $2,000 and $10,000 in a country where the monthly minimum wage is $290.[14] To help overcome these sorts of costs and complexities, efforts must be accelerated to help smaller firms and those in developing countries transition to the opportunities of certified sustainable production.

One solution to helping MSMEs access the green market is provided by increasing trade finance for smaller companies and businesses from developing nations who at times lack the know-how to trade internationally. WTO statistics highlight that MSMEs currently face greater difficulties in accessing trade finance as more than half of their trade finance requests are rejected, against 7% for multinationals companies.[15] This is largely due to a lack of awareness, familiarity and capacity. Developed countries should therefore prioritise MSME and developing country trade finance and ensure that it is closely tied to sustainable production methods. Technology, and in particular blockchain, has a role to play here as greater data accessibility for lenders and producers enables greater business certainty. This is already occurring as Sainsbury's and Unilever worked together to develop a distributed ledger system that offers Malawian tea growers cheaper finance if they use certifiably sustainable production methods.[16] Technology could therefore be the helping hand that smaller companies and those from developing regions require in order to operate more sustainably and to take advantage of the burgeoning green market.

NTBs and complex or inconsistent product standards and certification requirements clearly hinder trade in green goods. Governments should therefore launch platforms, both within and without FTAs, to push for common standards or certificates for green products, mutual recognition of said standards and procedures, and a broader commitment to work together to facilitate trade in green goods. Examples of the sorts of provisions which could be applied to support trade in green goods can be seen in the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)[17]. This sets out soft law guidance on how to regulate, wines and spirits, including labelling and is a good example of a regional agreement that aims to set common standards. Taking this sort of approach on, for example, recycling marks, would be hugely beneficial. Dialogue on such areas should therefore commence bilaterally, as well as multilaterally through the OECD and WTO.

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[13] Sticky sticker situation: Food miles, carbon labelling and development, C. Zaino, International Centre for Trade and Sustainable Development, 2008
[14] Small producers need help to enter lucrative "green" markets, United Nations Conference on Trade and Development, 2019
[15] Trade Finance and SMEs: Bridging the gaps in provision, WTO, 2016
[16] Cambridge Institute for Sustainability Leadership, Blue chips and start-ups launch new fintech pilot for more sustainable supply chains at the One Planet Summit, 2017
[17] Chapter 8, Technical Barriers to Trade, Trans-Pacific Partnership Agreement

Recommendations from business to governments:

- Intensify efforts to help smaller firms and those in developing countries transition to the opportunities of sustainable production, including through guidance, technology partnerships, and leveraging UK expertise to promote more rapid transitions by providing support in areas such as trade finance.
- Develop bilateral and multilateral (through the WTO and OECD) platforms to reduce NTBs for green trade and to strengthen commonalities in standards, procedures and certification for sustainable products and services.

A WTO-compatible carbon border tax

Perhaps the most high-profile proposal in the trade and environment debate concerns the idea of a carbon border tax. This is intended to ensure that countries and businesses are not reliant on production from countries with less stringent emission constraints, which then increases total emissions overseas (carbon leakage).

The complexities of a carbon border tax

The next President of the European Commission has already committed to introducing a WTO compliant Carbon Border Tax (CBT) that limits carbon leakage and provides a level playing field for European business.[18] This could arguably be implemented in compliance with WTO rules were it to be an indirect tax (on a product) that is non-discriminatory against third countries (accompanied with a proportionate domestic carbon tax), in line with MFN rules, and targeting ‘like’ products.[19]

The impact on countries at different stages of economic development

Nevertheless, a CBT remains a deeply complex and time-consuming proposal which has to assess life-cycle emissions across different regulatory regimes and production methods. One would also run into the situation whereby information is not provided, and in this case a predominant production method benchmark could be utilised for a given sector or product. This may however provide a blanket tax for many companies that would be disproportionate and may discriminately target developing nations who are less able to provide accurate data. The UN Framework Convention on Climate Change (UNFCCC) established principles of equity and “common but differentiated responsibilities”.[20] Developing countries are those who need most support for the green transition through their ongoing efforts to raise living standards and reduce poverty, and trade plays a vital role in achieving these goals - the fresh fruit and vegetable trade with the UK alone generates $400 million and supports the livelihoods of one million Africans.[21]

[18] A Union that strives for more, My agenda for Europe, President-elect of the European Commission, Ursula von der Leyen, 2019

[19] Changing Climate for Carbon Taxes: Who’s Afraid of the WTO?, J Hillman, 2013

[20] United Nations Framework Convention on Climate Change, 1992

[21] Sticky sticker situation: Food miles, carbon labelling and development, C. Zaino, International Centre for Trade and Sustainable Development, 2008

Trade subsidiarity

A CBT is to some extent built around the concept of trade subsidiarity, whereby the distance between consumption and production should be as short as possible. This view seeks uniformity in carbon policy, is worried about carbon leakage and sees international trade as a polluting factor. However, studies have shown, for example, that lamb grown in the UK and sold locally has a greater carbon footprint than lamb grown in New Zealand, 11,000 miles away.[22] This is due to New Zealand implementing more efficient and sustainable production methods. Furthermore, according to the UK department for International Development, flowers grown in Kenya and flown to the UK can generate less than a fifth of the emissions of those grown in Dutch greenhouses which are then transported to the UK.[23] International trade is inherently complex, deals with a multitude of regulatory and socio-economic regimes, and it is deeply challenging to introduce extraterritorial policy.

A CBT is a deeply complex avenue to pursue that brings significant administrative and financial burdens for business and governments, which could divert resources away from R&D and other efforts to create more efficient and sustainable supply chains. CBTs run the risk of scrapes with WTO law, undermining development policy, and could create an inefficient system that protects domestic industries while stigmatising international supply chains which can often be more efficient and sustainable.

Nevertheless, the long-term potential of CBTs to internalise negative environmental externalities is clear since they could increase production standards globally, reduce emissions, and funnel the proceeds to help developing countries tackle climate change. Realistically however they are a less immediate goal, and attention should instead be focused on the more deliverable goals that government and business can achieve in linking trade and the environment. The most appropriate mechanism of protecting competition and mitigating carbon leakage should therefore be examined on the multilateral level (through the WTO and OECD).

Recommendations from business to governments:

- Commence discussions at the WTO and OECD on the most appropriate mechanism to protect competition and mitigate carbon leakage, which is objective, proportionate and does not discriminate against domestic producers or developing countries.

Internationalising the UK's green leadership

The economic benefits of greening the economy

The UK is in a prime position to lead the greening of the global economy, with the low carbon and renewable energy sector expected to increase fivefold by 2030, bringing two

[22] Ibid.
[23] Ibid.

million jobs to the UK and contributing more than 8% of our total output.[24] The estimated GVA contribution of this sector to the UK economy over the next decade would be more than the long-term benefits forecasted for FTAs with Canada, Australia and New Zealand combined[25] – demonstrating the extent of the opportunity.

> *The low carbon and renewable energy sector is expected to increase fivefold by 2030, bringing two million jobs to the UK and contributing more than 8% of total output*

These green growth industries should be supported by government, with financial aid wherever possible to accelerate the low-carbon transition. This may include hypothecating the revenue obtained from the UK's Carbon Pricing regime and allocating it to the high-growth green sector and hard-to-decarbonise sectors to drive economic growth and trade flows while reducing emissions.

Linking the UK's exports agenda

Elsewhere, Government should focus on championing the value of the UK's innovative new environmental goods and services around the world and should augment the UK's Export Strategy with an additional green trade focus ahead of COP26. This should be linked to the government's focus on clean growth, ensuring that British companies have expertise in wind-farming, energy efficiency and low-carbon technologies, as part of the Grand Challenges identified within the Industrial Strategy.

Raising the profile of green finance

Similarly, green finance can redefine the UK economy and enable it to meet its international climate goals. The UK is the world's second-largest financial centre and the largest centre in Europe; nearly three times the size of financial centres in France and Germany[26] and government has the opportunity to add green finance to its international clout. Business and policy makers have a huge role to play. Policy must be created that encourages businesses to take up green finance and actively seek out changes that will aid them in a transition to a low-carbon economy. This includes helping to bridge the green investment gap.

Right now, the level of green investment is lower than what is needed to deliver the decarbonisation targets set in the Paris Agreement and there is a significant green investment gap which needs to be plugged. The UK set up the world's first Green Investment Bank in 2012 and in its three years of operation, it committed £2.6bn of capital to almost 70 green infrastructure projects across the UK. As the Green Investment Bank is no longer in operation, the CBI recommends that the government capitalises the British Business Bank with the resources needed to expand its role and create a fund that

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[24] UK business opportunities of moving towards a low carbon economy, Ricardo, Energy & Environment, 2017
[25] Britain's trading future: A post-Brexit export strategy led by clean growth, Green Alliance, 2018
[26] The New Financial international financial centres index https://newfinancial.org/financial-centres-index/

promotes green finance for SMEs. This could bridge the gap between climate targets that need to be reached and the funding needed to fulfil these, especially in the context of the UK losing access to the European Investment Bank post-Brexit.

Delivering a robust regulatory regime

The UK needs an agile and robust regulatory regime to deal with new challenges, risks and customer demands to enable financial services to support UK growth. This will provide the regulatory certainty to encourage private investment to support decarbonisation. Climate change has become an important issue for the whole economy and will soon develop into a central business issue for all corporates and financial actors. Following the UK's adoption of a net-zero target by 2050, all subsequent government policy and regulation should be focused on delivering the right policy frameworks to facilitate the finance and investment to achieve this. This means that the regulatory framework for financial services must favour long-term investments but also adapt as we make the transition.

Taking the lead in international fora

These elements require the UK to take the lead internationally and our efforts could be complemented by an additional focus on greening the international institutions that develop and shape our key multilateral rules. The UK should use its influence in Geneva to push the WTO to cooperate more systematically with the UNFCCC, in particular through the WTO's Committee on Trade and Environment. This coordination and focus could be augmented through the national Trade Policy Reviews also beginning to assess whether national trade policies are helping or hindering a nation's climate commitments.

Multilateral trade does not however occur within a policy vacuum and is not isolated to the WTO. Other institutions should also be harnessed and greening the approach and objectives of the World Bank, EIB and IMF is an important angle to pursue. The EIB has already signalled a desire to further green its lending policy and in 2018 the World Bank estimated that more than $20.5 billion (more than 32%) of its lending portfolio produced climate co-benefits.

Emission reduction programmes, particularly for developing countries, should become a signature policy for international lending institutions.[27] The UK should prioritise these international initiatives and lead the world forwards by prioritising the topic of green trade during COP 26 and the G7 in 2021. Specifically, the government should work with international partners to develop a track of work to deliver on trade, climate change adaption and resilience. This would help to raise awareness of the interconnections between different issues, from trade finance to tariffs and demonstrate the UK's intentions to take an international lead in this area.

Recommendations from business to the UK government:

- Assess the possibility of hypothecating the revenue from the UK's Carbon Pricing regime and dispersing this revenue, in addition to government support to greening sectors as well as hard-to-decarbonise sectors such as heavy industry.
- Augment the UK's Export Strategy with a green trade focus ahead of COP26.
- Commit to prioritising trade and climate action during the UK's G7 in 2021.
- Government must create policy that encourages businesses to take up green finance and actively seek out changes that will aid them in a transition to a low-carbon economy. A key area of focus should be to capitalise the British Business Bank with the resources needed to expand its role and create a fund that promotes green finance for SMEs.
- Take the lead in greening key international institutions, including through a more systematic WTO-UNFCCC dialogue and the consideration of national trade policy's consequences for existing climate change commitments in national Trade Policy Reviews, and for key international funding institutions to commit to funding comprehensive emission reduction programmes.

[27] World Bank Group Exceeds Its Climate Finance Target with Record Year, World Bank, 2018

Conclusion

The UK through its innovative, digitised and forward-looking business environment has a golden opportunity to provide the solutions to meet our climate goals. However, the new frontier poses the question of how to internationalise our climate breakthroughs and ensure that the green revolution is driven by the UK and disseminated around the world. Bilateral and multilateral trade policy can plug this gap and must be better harnessed to deliver a globalised response from business, governments and citizens around the world to the climate challenges we face. With the fast-approaching COP26 set to be hosted in the UK and the G7 coming to our shores in 2021, we have a window of opportunity to turbocharge the UK's international influence on green trade and to push for a global agenda that harnesses the power of free and fair trade to play its part in fighting back against environmental degradation and climate change.

The time to act is now, and business is ready to work with governments and provide the evidence, vision and know-how on the ground to promote sustainable and green trade.

For further information or a copy
in large text format, contact:

Ben Thom, Senior Policy Adviser, Brussels,
CBI

Jessica Dickinson, Principal Policy Adviser, International Trade
CBI

Tel: 020 7395 8213

cbi.org.uk