GREEN GROWTH AND INTERNATIONAL TRADE

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Framing the Issue

A key focus of Rio+20 will be on achieving green growth through policies that promote environmentally sustainable economic growth. International trade is a key driver of economic growth and can have important implications for the environment. The interaction between international trade, economic growth and the environment was addressed in the 1992 Rio Declaration, which states that trade measures to achieve environmental goals should not lead to arbitrary and unjustifiable discrimination, and encourages countries to avoid taking unilateral action to address environmental challenges outside the jurisdiction of the importing country and to address transboundary or global environmental problems based on international consensus.

These principles remain relevant today. But what has changed is the urgency of the environmental challenges such as climate change, loss of biodiversity and the unsustainable exploitation of fish stocks. At the same time progress towards resolving these issues through multilateral negotiations has become even harder, as evidenced by the limited movement in the U.N. climate change negotiations and the World Trade Organization Doha Round. Countries continue seeking to resolve these global environmental issues in regional forums, such as Asia-Pacific Economic Cooperation (APEC) or the G-20. Additionally trade liberalization is now being pursued under free trade agreements (FTAs) that include new rules to address the interaction between trade and the environment. The failure to resolve these global environmental challenges through negotiation has also led to countries acting unilaterally.

Policy Considerations

The impact of international trade on the environment is complex. Trade drives economic growth, a key element of green growth and sustainable development. However, economic growth can exacerbate environmental harms, whether it be through increased greenhouse gas emissions, deforestation or loss of biodiversity. At the same time, trade liberalization can help improve environmental health where it leads to increased competition, a more efficient use of resources and supports transitions towards cleaner and more services orientated economies.

Trade can also lead to improved environmental health by expanding access to environmental goods and services that support more efficient and environmentally friendly production processes. As a result, reducing trade barriers to environmental goods and services has been part of the WTO Doha Round. Additionally, at the APEC meeting in Hawaii in November 2011, the 21 APEC members agreed to reduce tariffs on green goods. Regional and bilateral free trade agreements are another opportunity to reduce trade barriers and develop new rules to promote green goods and services.

Trade and green growth policies also interact when countries condition or limit access to their markets to achieve environmental goals. This can arise when a country seeks to ensure that the price of a good reflects its domestic environmental harms, and adopts border measures to ensure that these costs are also reflected in the price of imports.

In the absence of international action to address global environmental challenges such as climate change, unilateral action by countries to reduce their greenhouse gas emissions may include trade measures that apply the costs of climate change regulation to imports. This is required to avoid carbon leakage, which arises when industry seeks to avoid climate change regulations by relocating to countries that have adopted less costly (or no) climate change measures. Where industry continues to emit carbon there is no net reduction in global greenhouse gas emissions. Extending the price of carbon to imports can avoid this outcome.

The use of trade measures to achieve environmental goals, however, needs to be balanced against the role of international trade as a driver of economic growth and development.

Recommendations for Rio+20

Green growth links the goals of economic growth and development with environmental protection in sustainable ways. International trade can both drive economic growth and help countries achieve their environmental goals. Restrictions on international trade can also be used to incentivize international action on global environmental challenges. Encouraging international trade as a mechanism of development while recognizing that countries will use trade restrictions to achieve environmental goals involves a balance that is reflected in the rules of the World Trade Organization. Rio+20 provides an opportunity to recognize the ways in which international trade can contribute to green growth by agreeing the following principles:

- Countries should recognize that green growth requires a balance between promoting trade as a driver of economic growth while recognizing the legitimate use of trade measures to achieve environmental goals. Reaffirmation of Principle 12 of the 1992 Rio Declaration would suffice to capture this exchange.
- Countries should also recognize that reducing trade barriers to green goods and services supports green growth goals and commit to finding ways to achieve this goal. Countries should reaffirm the goal in the WTO Doha Round of reducing trade barriers to environmental goods and services.
- International cooperation to address global environmental harms should be encouraged where possible. But countries should recognize the legitimacy of unilateral action by countries to address global environmental harms such as climate change.
- Countries should commit to finding ways of avoiding subsidies that distort trade and harm the environment, such as those that lead to over-fishing