

## SECO Roundtable on trade, climate change, and the SDGs

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Annex: Workshop Agenda

A Roundtable on trade, climate change, and the Sustainable Development Goals (SDGs) was held in Bern, Switzerland, on 23 June 2021. It was convened by the State Secretariat for Economic Affairs (SECO), the World Trade Institute (WTI), and the Centre for Development and Environment (CDE) of the University of Bern, after being postponed several times due to Covid-19 restrictions. It brought together just over fifty stakeholders from science, civil society, business, and the federal administration in order to discuss how trade policy can contribute to tackling climate change and achieving the 2030 Agenda. The Roundtable reached out to trade experts and climate/SDG experts from outside the trade community in an effort to break down silos and find ways to integrate knowledge from different communities. It was the first event of its kind in several years. State Secretary Marie-Gabrielle Ineichen-Fleisch welcomed participants on behalf of SECO; Professor Peter van den Bossche as well as Professor Thomas Breu spoke on behalf of WTI and CDE of the University of Bern.

The objective of the Roundtable was to open new windows of reflection and to build bridges between different stakeholder groups. The Roundtable began with remarks on the concept of Sustainability Governance by Dr Elisabeth Bürgi Bonanomi (CDE) as well as two overview talks on climate change and trade, focussing on WTO law by Professor Thomas Cottier (WTI) and the framework of bilateral trade agreements by Ambassador Markus Schlagenhof (SECO), respectively. It then addressed three topics that were central to the debate: Technical cooperation and transfer of technology to developing countries, as introduced by Professor Zakar Ahmad (University of Chittagong, Bangladesh and WTI); a session on carbon tariffs, border tax adjustment, and related issues, as introduced by Professor Thomas Cottier (WTI); and, finally, a session on fossil fuel subsidies and how they could be addressed in international negotiations, as introduced by Professor Ilaria Espa (Universita de la Svizzera Italiana and WTI). The sessions were followed by contributions from discussants as well as questions, answers, and floor discussions (see the programme enclosed). They contributed insights into the interdependence of issues and the need to develop mutually supportive policies in trade and other fora.

This brief report provides a summary of the presentations and discussions held. The Roundtable was conducted under Chatham House rules. The report therefore does not identify personal views expressed and is essentially limited to issues and findings.

## **A. Laying the Ground: SDGs, Climate Change, and Trade**

### **1. A comprehensive perspective is required**

It was widely felt that ensuring sustainable socio-economic growth while respecting environmental boundaries is a crucial, yet exceedingly challenging policy objective – both internationally and nationally. It was expressed by some experts that, in our increasingly interconnected world, policy has become fragmented and interest-driven, rather than pursued in a spirit of solidarity. Achieving an overall balance of economic, social, and ecological goals is at the core of sustainability and requires mutual support in all regulatory areas, including trade, environmental policy, development cooperation, taxation, and financial regulation. The challenge of climate change mitigation and adaptation and the Covid-19 pandemic have made it clear that humankind is at a crossroads. Environmental limits are being exceeded in many respects and social needs as well as equity-related challenges are overwhelming in many places: among other indicators, we are witnessing extremely high rates of biodiversity loss and socio-economic disparity.

Development experts further highlighted the slow pace of reforms. Just over eight years remain to achieve the 2030 Agenda. At the current pace of reform, 50 percent of the SDG targets will not be achieved; for some targets (greenhouse gas emissions, biodiversity loss, inequality), the world is developing on a trajectory that steers away from the objective. Advancing the 2030 Agenda requires an urgent reorientation of socio-environmental-economic systems, including through trade as lever for sustainable transformation.

Experts also highlighted the many conflicts of interest and path dependencies that arise when seeking to approach common concerns like climate change. While all actors, private and public – and all levels of governance – are called upon to act, they often confront “wicked” problems. This points to the need for greater coherency in the design of policies. Effective action will require breaking out of silos and accounting for the side-effects of interventions, including a perspective on the winners and losers of different approaches. In order to

devise integrative, more socially inclusive policies, it was argued that it is necessary to engage in a new partnership between science, government, and the private sector – as spearheaded by the Roundtable itself.

## 2. The SDG framework

A general point was made at the outset of the Roundtable that, with the SDGs, the international community has given itself a compass for future action. This compass reflects an international common understanding as set down in a set of international agreements; it reflects common concerns of humankind, in line with the emerging principle of common concern of humankind in international public law.

It was argued that, since operationalization of the SDG framework requires strengthening co-benefits and minimize trade-offs between competing development objectives, a low-carbon transition must be “just”. This includes provisions to address who benefits and who loses from the transition. In trade terms, this translates into nuanced, comprehensive solutions that are “somewhere in between” competing claims. While it was felt that “leave no one behind” was a central element of the 2030 and would also need to inform the trade and climate agenda, some participants expressed concerns that the “leave no one behind” pledge also could be instrumentalized or otherwise misused to slow down the pace of reform in the fight against climate change.

Participating trade lawyers emphasized that the 2030 Sustainable Agenda and corresponding SDGs can assist in interpreting treaty rules. Core issues of future jurisprudence regarding trade-related climate measures will likely revolve around key WTO disciplines, including non-discrimination requirements with respect to Border Tax Adjustment (BTA), tariff disciplines, or PPM-based carbon tariffs (see chapter A.4).

## 3. Trade and climate change

There was general agreement that trade and climate change are dynamically interlinked and that the impacts of trade on climate change and vice versa are manifold. International trade and quantitative growth can further fuel climate change by increasing income and consumption. Yet trade can also play a valuable role in adapting to and mitigating climate change. In particular, more open trade increases the availability of energy-efficient goods and services, and provides a means for distributing new environmental technologies and know-how. Furthermore, trade provides a means to react to supply disruptions: if climate change leads to a scarcity of certain goods in a country/region, these would continue to be available through trade. In this context, one view was that climate change would challenge “relocalization” of production, pointing instead to the importance of inter-regional trade, particularly in agriculture.

A frequently raised argument is that carbon taxes increase production costs and therefore trigger “carbon leakage”. Carbon leakage occurs when production is transferred from a country with high emission standards to a country with low emission standards, thereby increasing CO<sub>2</sub> emissions overall. Participants agreed that this concern of industry vis-a-vis decarbonization of the economy must be taken seriously. However, some doubts were raised about the extent of the problem. The point was made that the risk of carbon leakage is not actually supported by hard data; for example, participants argued that there is no compelling evidence that climate policies are forcing companies to move abroad.

While there was general agreement that trade and climate change mitigation/adaptation can be mutually supportive, different views were expressed regarding the extent to which trade law and policy should address climate change concerns. One view shared was that “trade policy is not climate policy”: the prime objective of trade policy is the facilitation of trade flows, not the furtherance of concerns that are not necessarily trade related *per se*. Another view expressed was that sustainability concerns are at the heart of the mission of the WTO, as stated in the WTO Preamble. Similarly, it was argued that trade policy concerns much more than formulating or eliminating tariffs. Namely, it further concerns what is subsidized or not subsidized, what is taxed, what standards products must comply with, as well as matters of technical cooperation. From this perspective, trade policy provides an important lever for tackling climate change issues.

Participants also pointed out that climate change policies are already pursued under existing WTO law. For example, the Agreement on Agriculture allows for “green” subsidies; the TRIPS Agreement supports patenting of genetically modified drought-resistant crops; the Agreement on Government Procurement allows for “green”

procurement practices, etc. In this way, much could be achieved on a step-by-step basis from within, especially through case law, although reform in some of these disciplines is needed. It was emphasized that further reform should be pursued through active negotiations, among other areas, regarding the reduction of fossil fuel subsidies or the promotion of technology transfers of renewable energy (see chapter B).

A different view shared was that the existing legal framework in general does not set the right incentives for a sustainable transition, such that a shift in the policy paradigm is needed. In particular, countries that do not work to internalize “externalized” (e.g. environmental) costs should be viewed as subsidizing their exports.

#### 4. The potential of trade differentiation based on distinctions between processes and production methods (PPMs) used

Participating trade experts highlighted an important shift in trade law that has occurred in recent years. In the past, use of trade measures to pursue sustainability concerns was considered incompatible with trade law – or seen as a matter of specific exceptions only. Today, however, this view no longer dominates. A corresponding shift can be observed, for example, as regards the perceived WTO-compatibility of trade measures based on differences in processes and production methods (PPMs). In particular, such measures can be and are used to foster trade in products and services that have been produced in a sustainable way.

It was noted that such PPMs are at the core of the current trade and climate agenda, and that WTO jurisprudence has evolved in this regard. If one had to summarize the existing PPM-related cases, one might say that differentiations and restrictions based on PPMs are accepted, in principle, if designed in a non-discriminatory, effective, proportionate way, i.e. no more intrusive than necessary to achieve the intended goal.<sup>1</sup> In practice, so far, they have often failed based on small details, indicating flawed design. Other experts stressed the persisting uncertainty of PPMs in WTO law. According to them, case law has certainly evolved, but high requirements for justification remain. It was noted that PPMs are only legitimate if effective support to developing countries is provided. Affordable licensing of intellectual property is relevant here.

Trade measures are increasingly linked to sustainability criteria that reflect PPMs. Recent examples include the EFTA–Indonesia trade agreement CEPA, where certain tariff quotas are linked to sustainability criteria in palm oil production; the EU–UK Trade Agreement, where parties are required to promote electricity from renewable sources and to support biofuels only if robust criteria for sustainability are met (Chapter VIII, Art. 320); and the EU–Canada Trade Agreement CETA that calls for active promotion of sustainable development supporting trade (Art. 22.3; containing an implicit link to PPMs).

However, practitioners have observed that PPMs can be enshrined in trade agreements only in some exceptional cases, and that palm oil was a special case: Its production is particularly problematic from a sustainability perspective, and credible sustainability benchmarks exist at the global level. It was argued that this combination is not always given. For example, agreed global standards as reflected in hard law are not available for sustainable livestock farming practices or sustainable meat products, making it difficult to link sustainability criteria to trade in animal products. Therefore, participants emphasized the need to make progress in developing internationally accepted production standards. Some uncertainty remained, however, as to how a “legitimate international standard” is exactly defined. The issue of PPMs was discussed in more detail in the session on carbon tariffs and border tax adjustment (see chapter C).

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<sup>1</sup> The introduction of differentiations and restrictions based on processes and production methods (PPMs) does not necessarily depend on the physical characteristics of the product, but rather on the way the product is produced, i.e. in a sustainable or non-sustainable manner. The question arises as to whether such distinctions are compatible with the fundamental principle of national treatment of “like products”. Particularly controversial is the issue of product and process methods which do not impact the final quality of the product and cannot be traced within the product based on physical characteristics (so-called “non-product-related PPMs” or npr-PPMs). Many countries still argue that npr-PPMs violate non-discrimination disciplines and would have to be justified under GATT Article XX. Under Article XX, they would have to comply with a stringent proportionality test. Whether or not a measure complies with these requirements strongly depends on its characteristics and features. There is no general answer. PPMs and npr-PPMs in terms of technical regulations and standards are recognized under the TBT Agreement and have been mainly used in the context of product labelling which leaves informed consumers to choose appropriate products.

## 5. Switzerland's trade policy stance in climate change

It was widely felt that Switzerland was a credible actor in the debate on trade and climate change and should maintain its strong momentum. Switzerland was one of the delegations that spearheaded the “trade and environment” debate in the international trade agenda. It was explained that – at the multilateral level – Switzerland actively engages in advancing work on trade and environmental sustainability through a number of initiatives, including the plurilateral Agreement on Climate Change, Trade and Sustainability (ACCTS), the Trade and Environmental Sustainability Structured Discussions (TESSD), and the Informal Dialogue on Plastics Pollution and Environmentally Sustainable Plastics Trade (IDP). As part of a coherent economic policy, Switzerland has begun to conduct environmental impact assessments in its preferential trade arrangements (the EFTA–Mercosur agreement). Further, it has begun linking preferential access to the Swiss market to a comprehensive set of sustainability criteria (see chapter A.4, the case of preferential access for sustainable palm oil from Indonesia). In these respects, Switzerland has set a benchmark for others and an example to be followed.

Some participants suggested that while Switzerland was certainly at the forefront of the trade and environment debate, more policy coherence is needed at the domestic level in a number of respects. In agriculture, for instance, direct payment to producers could be better aligned with ecological and social criteria. More broadly, it was observed that Switzerland has one of the highest environmental footprints per capital, if one considers emissions embodied in consumption, based on imported products and services. However, if one instead assesses Switzerland's footprint according to production-based or territorial emission accounting methods, the Swiss balance is relatively modest. Addressing these different perspectives – and corresponding gaps in coherence – would enable more comprehensive and systemic policy responses at the domestic level.

## 6. A perspective on investment

The question was raised of how to bridge trade and investment issues related to climate change. It was stated that trade and investment were being treated separately, in silos, with investment issues being mainly addressed in the context of UNCTAD, UNCITRAL, and other agencies, and trade being addressed under the WTO. Others specified that investment was already partly covered by the WTO based on the following agreements: TRIPS (protection of intellectual property generated through investment), GATS (the regulation of commercial presence), and TRIMs (trade-related investment measures). It was argued that the “protection” dimension of foreign direct investment (FDI) is particularly outside the WTO purview, whereby private companies can sue governments for expropriation, whereas “promoting” investment is within WTO purview. Other participants echoed the view that WTO Members have failed to integrate investment issues into the WTO framework in a comprehensive way.

Following a more general discussion, three topics were given particular emphasis: transfer of green technology to developing countries; carbon tariffs, border tax adjustment, and related issues; and fossil fuel subsidies.

## B. Transfer of green technology to developing countries

### 1. Input: Climate change as a common concern of humankind

In this session, it was argued that climate change must be understood as a common concern of humankind. This alters the foundation of technology transfer in renewable energy (RE), since it is in virtually everyone's interest that the best technologies are put to work wherever goods and services are produced around the globe. Accordingly, national prerogatives of competitiveness no longer play the same role, and the system needs to be redesigned. The point was made that, at present, RE incentives were essentially directed “inwards”, e.g. feed-in tariffs for electricity from renewable sources. The need to redirect incentives “outward” was emphasized, for example by encouraging domestic firms to invest in RE generation and distribution in developing countries.

It was observed that trade rules might be getting in the way, for example by preventing export finance for RE components. While an appropriate incentive framework is not yet in place, countries like Switzerland should restructure incentives to actively contribute to the diffusion of RE technologies also abroad. Multilaterally,

Switzerland should advocate for a positive duty to transfer green technology to developing countries in ongoing negotiations at the WTO level. It could push for improved market access for environmental goods/services, and spearhead discussion on waiving the WTO illegality of RE export credits and similar schemes. Unilaterally, Switzerland could condition preferential access to its market on the supplier's climate performance. Domestically, if carbon border adjustment is introduced, RE technology transfer must be linked to it. Also, technology diffusion should be a criterion to assess the adequacy of carbon credit projects.

## 2. Discussion

Participants agreed that RE technology transfer to developing countries is certainly necessary. It was emphasized that technology transfer not only covers technology, but also technological know-how, guidance on proper use, etc. Meaningful technology transfer would need to convey associated skills and procedures.

Different views were expressed regarding inclusion of technology transfer within an enlarged WTO mandate on climate change. The point was made that duties to cooperate in terms of technology are already embedded in the Paris Agreement. It was also pointed out that bilateral trade agreements could provide a laboratory for introduction of new technology transfer obligations. The financial sector was singled out as providing a major lever that could be used more extensively to incentivize green technology and disincentivize dirty investment.

No consensus view emerged regarding introduction of new duties to transfer RE. One concern raised is that the main obstacles to RE diffusion are not international, but rather domestic in nature, and have to do with national legal frameworks. It was observed, for instance, that in some contexts state companies with market monopolies do not allow RE companies to feed their energy into the public grid. Also, private financiers in certain countries are not interested in supporting RE.

Some participants supported the idea of linking technology transfer to any future carbon adjustment scheme, as part of a single package deal. However, the question was raised as to whether it is fair to tax carbon-intensive products at the border and to use the proceeds to subsidize Swiss firms doing RE business in the global South. It was observed that if Switzerland used the money raised to subsidize production of goods and services at home, it would be even more controversial.

It was argued that "inward" incentives are also needed to stimulate domestic production. The negotiated electricity price still does not make it possible to secure physical assets or upgrade current assets in RE. It would not be wise to simply transform "inward" incentives into "outward" incentives. The point was made that integrating RE sources from distant locations into the domestic power grid requires greater investment in the latter.

Some participants raised more fundamental concerns. Without internalizing externalized costs, technology transfer will not solve the problem. It was argued that a systemic transition to a low-carbon economy will take place only if external costs are internalized in production processes. The point was made that non-internalization of externalities amounts to a subsidy. Under trade rules, countries should be able to sue other countries for failing to internalize environmental costs and thus competing unfairly – something that is not allowed today.

Some views were expressed regarding issues of policy coherence. It was observed that Switzerland is firmly committed to sustainable energy and is part of the Energy Charter Treaty, which protects all energy investments, including investments in carbon-intensive energy projects.

## C. Carbon tariffs, border tax adjustment, and related issues

### 1. Input: Adjusting the incentive system

A thematic session followed on carbon tariffs, border tax adjustment, and related issues. It was highlighted that carbon taxes used to internalize negative externalities increase production costs and trigger fears of "carbon leakage" (see chapter A.3). Different trade policy options are available to address the problem.

The first policy option for addressing carbon leakage is "Border Tax Adjustment" (BTA). The instrument allows for compensating at the border taxes applied to domestic production, in order to level the playing field. The



approach can be used on its own or in combination with carbon-emission trading, as proposed in the EU. Under GATT rules, BTA adjustment is limited to the level of taxation effectively imposed to domestic goods. A country can only tax as much as it taxes its own domestic production; if an equivalent industry is not present in the country, no taxes can be introduced (BTA exceeding domestic taxation *de facto* would be understood as an import tariff or a subsidy). Switzerland, as service-based economy with only little heavy industry, has relatively reduced scope for use of BTA. For example, if Switzerland were to impose taxes on a non-climate friendly good such as steel, in the absence of equivalent taxes domestically, it would violate GATT Art II.

A second option is the application of “carbon tariffs”. It was observed that the philosophy and general trend since inception of GATT and the WTO has been to reduce tariffs. However, tariffs are a lawful instrument of protection that could be used more often. One option would be to differentiate applied tariffs within existing bound rates on the basis of PPMs (see chapter A.4). A second option would be to deconsolidate bound tariff rates for selected imported products produced in an unsustainable manner while removing tariffs for sustainably produced goods. Deconsolidation would trigger compensation when bound levels are exceeded. It was noted that such PPM-based tariffs are suitable only for a limited number of commodities, such as steel, aluminium, fertilizer, and cement. It would be difficult to apply them to complex value chains. Finally, a system of differential climate tariffs would require large markets to be effective. It would thus imply the creation of a carbon tariff club (as advocated by economist William Nordhaus<sup>2</sup>) on the basis of multilateral or plurilateral agreements, which Switzerland could initiate or join.

## 2. Discussion

As regards BTA, participants argued that a consistent application of climate-related taxes at the national level is key, otherwise it would be difficult to justify their adjustment at the border. The question arose as to whether industry would be in favour of BTA. The answer does not appear straightforward. It was argued that domestic firms not depending on imports from third countries would certainly be in favour of BTA as a means to level the playing field.

Some participants contended that Switzerland should not install BTA on its own, but should rather wait for the EU – or even other regions – to do so. The (leaked) EU Carbon Border Adjustment Mechanism<sup>3</sup> was highlighted. It would require companies exporting carbon-intensive goods into Europe to hand in allowance certificates, linking it to the European Emission Trading System ETS. It was argued that such a scheme might be incompatible with WTO law<sup>4</sup>: Foreign producers would have to purchase emission allowances, while European firms would continue to partly receive emission allowances for free or at reduced prices. This could be viewed as a domestic subsidy.

According to participants, BTA is only a valuable instrument if domestic carbon taxes are in place. It was argued that, in economic and environmental terms, carbon taxes are the most liberal and most cost-effective tool to internalize negative environmental externalities. However, environmental taxes might not be viable from political perspective – e.g. Swiss voters recently rejected the revised Swiss CO<sub>2</sub> Act. It was also highlighted that carbon taxes could provide a good mechanism for developing countries to raise revenue and broaden their tax base, while leading to development benefits in various forms – e.g. air quality.

Regarding the idea of carbon tariffs, it was argued that countries have minimal scope for raising tariffs to promote sustainability. This is due to the fact that industrial tariffs are bound at extremely low levels. Experience has shown that it is politically cumbersome to deconsolidate tariff headings beyond bound rates. Accordingly, tariff deconsolidation on a broader scale would increase administrative costs and trade costs. Other participants reiterated that PPMs should be considered at the heart of sustainability, and should no longer be considered problematic under trade law if properly designed (see chapter A.4). The palm oil case in the EFTA–Indonesia Agreement was emphasized as a good start, but the process arguably needs to be accelerated. It was suggested that sustainability labelling should be more extensively used to distinguish “green” products from others. One

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<sup>2</sup> See for example Nordhaus, W. (2015). Climate Clubs: Overcoming Free-Riding in International Climate Policy. *American Economic Review*, 105 (4): 1339-70.

<sup>3</sup> Eventually published on July 14, 2021

<sup>4</sup> GATT Article III:4 and subsidy disciplines

view shared was that tariff deconsolidation could be pioneered in the context of preferential trade deals, or as part of a “club” agreement.

Participants argued that tariff differentiation based on PPMs would be easier in agriculture, since bound rates are often much higher when compared with industrial goods. Yet even in the area of agriculture, differentiation between sustainable and unsustainable goods is technically difficult. The question arises: How can we draw a line between sustainable and unsustainable products in the absence of international standards enshrined in hard law (see chapter A.4)? Participants observed that it depends on the definition of “international standards”, pointing out that there are many existing standards that bear high legitimacy. The question was raised as to how one could reconcile the need for global/harmonized standards and the quest for context-sensitive solutions attuned to different agro-ecological conditions. In the past, equivalence of standards and mutual recognition procedures have introduced some flexibility in standard-setting processes, but they still face many obstacles in practice.

## D. Fossil fuel subsidies

### 1. Input: Scope, reduction, and elimination

The last thematic session covered fossil fuel subsidies. Worldwide, fossil fuel subsidies are still massive, although the lack of a common methodology has resulted in varying estimates. For instance, the OECD and the IEA jointly estimated support for (production and consumption) fossil fuels at USD 478 billion in 2019.<sup>5</sup> The IMF, which also includes the environmental and social costs of fossil fuels in its estimates, offered a dramatically higher estimate of USD 5.2 trillion (6.5 percent of world GDP) in 2017<sup>6</sup> Irrespectively, many of these subsidies result in negative social, environmental, and economic outcomes.

Commitments to phase out fossil fuel subsidies do exist – including commitments made under the Paris Agreement of the G20 to phase out fossil fuel subsidies, as well as SDG 12.c. However, there remains a lack of clearly defined targets. At the WTO level, fossil fuel subsidies have not yet come under intense scrutiny, in contrast to discriminatory renewable energy subsidies, which have faced litigation in several cases. This may be due to a sort of “glass house syndrome”, i.e. no one wants to challenge such subsidies knowing they themselves could be vulnerable.

Switzerland has fossil fuel subsidies in place, too, mainly in the form of tax expenditure programmes on the consumption side. They include programmes that provide tax exemptions/reductions to lower the cost of fossil fuel for consumers of fossil fuels, such as the CO<sub>2</sub> tax exemption for large energy consumers, tax refunds for farming, or tax exemptions and subsidies for aviation. While a small subsidizer in absolute terms, per capita, Switzerland stands out as one of the biggest players globally (with CHF 300 per capita spent on such programmes).

Reflecting on what Switzerland could do, it was noted that Switzerland is already at the forefront of existing trade initiatives, including the ACCTS and TESSD (see chapter A.5). Switzerland is well placed to credibly drive reforms at the WTO level – these could consist of transparency and reporting obligations, phase out commitments and/or prohibition clauses, technical assistance, and capacity building. It could also identify potential synergies with the Paris Agreement, e.g. regarding technology transfer. At the domestic level, Switzerland could close existing loopholes (e.g. CO<sub>2</sub> levy only applied to fossil heating and process fuel) and further align its domestic climate and energy policy with the revised Paris Agreement commitments (e.g. by rationalizing exemptions from the CO<sub>2</sub> levy).

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<sup>5</sup> OECD Website “Governments should use Covid-19 recovery efforts as an opportunity to phase out support for fossil fuels, say OECD and IEA”, 5 June 2020: <https://www.oecd.org/environment/governments-should-use-covid-19-recovery-efforts-as-an-opportunity-to-phase-out-support-for-fossil-fuels-say-oecd-and-iea.htm>

<sup>6</sup> The IMF does not only estimate government transfers or revenues foregone, but also puts a price on the non-internalisation of social and environmental externalities, such as road congestion, air pollution, and climate change. David Coady et al, Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates, IMF Working Paper WP/19/89 (IMF 2019), p. 5.



## 2. Discussion

The issue of fossil fuel subsidies was discussed broadly by participants. From an environmental perspective, it was observed that fossil fuel subsidies lead to distortions and market failures. They result in excessive energy consumption, which accelerates the depletion of natural resources and slows down investment in RE. From a development perspective, it was noted that there is as a strong correlation between the economic wealth of countries and their CO<sub>2</sub> emissions: The one half of the world population living in low-income and lower-middle income countries accounts for only 14 percent of global CO<sub>2</sub> emissions; Africa, accounting for 1/6 of the world population, emits only 4 percent of total global CO<sub>2</sub> emissions. While contributing comparatively less to climate change, the poorest countries are among the most affected by climate change. The health hazards of fossil fuels were also emphasized. The negative externalities associated with production of goods consumed in high-income countries impacts the health of a large share of the population in low-income and lower-middle incomes countries.

Several participants stressed that the social dimension and harms of fossil fuel subsidies deserve more consideration. The issue of inequality and distributive impacts of reform was raised. It was argued that social justice concerns at the international level can be translated in the concepts of “just transition” and “people-centred energy transition”. Participants discussed how to best forge alliances and obtain buy-in from those worried about being left behind in the context of fossil fuel subsidy reform. It was stressed that the social impacts of transitioning to a low-carbon economy need to be tackled, since new jobs will be created for example in RE, but not necessarily for the same people and not in the same locations.

In this respect, it was noted that there is a false perception that fossil fuel subsidies help the poor and that their phase out would impose a heavier burden on low-income households compared with high-income households. However, the reality is that current subsidies largely favour the comparatively well-off. It was also noted that the public revenues saved by phasing out fossil fuel subsidies could be reinvested on behalf of low-income households. It was argued that this also holds for Switzerland. Participants observed that the policies that have failed in popular referenda share a few aspects: lack of planning, insufficient compensation for the “losers”, and that they may be too complex to understand. It was argued that fossil fuel subsidy reform should be linked to tax reform, requiring long transition periods and accompanying measures for those adversely impacted by said reform.

As regards the WTO Agenda, different views were expressed regarding methodological approaches to defining and measuring fossil fuel subsidies. One view expressed was that a clear definition of subsidies that also covers fossil fuel subsidies is provided by the WTO Agreement on Subsidies and Countervailing Measures (ASCM). Another view shared was that there are inherent limitations in sticking to the ASCM definition, given the ASCM focus on specific subsidies that distort trade; the environmental impact does not matter under existing disciplines. While some participants noted divergences in measuring fossil fuel subsidies, others pointed to lack of data as a key stumbling block to addressing the fossil fuel subsidy issue – OECD data only covers about 40 economies, while the rest is covered by IMF estimates. It was stressed that an important first step is to obtain accurate data for all countries. The question is how to compel countries to properly report their subsidies to the WTO. The point was made that reduction of fossil fuel subsidies should be a gradual process, drawing lessons from agricultural negotiations and fisheries subsidy negotiations.

The engagement of Switzerland for the ACCTS was lauded, and it was argued that the agreement could provide a key role model function for WTO negotiations. The question was raised as to whether it would be preferable to reach a non-ambitious deal with many participants, or an ambitious deal with fewer participants. In this respect, it was observed that Switzerland is negotiating alongside oil- and gas-producing countries, which could lead to compromised solutions on fossil fuels. Yet the Swiss objective is supposedly to match ambitious positions.

On a more general note, it was observed that in other controversial and pressing areas – such as international corporate income tax reform – the policy agenda is moving forward quickly with radical reform options. By contrast, in the fossil fuel area, progress remains slow. It was noted that oil- and gas-producing countries have strong incentives to prevent moving forward. Some also expressed concerns that the “leave no one behind” pledge is used in practice to slow down the pace of reform (see chapter A.2).

One view expressed was that fossil fuel subsidy reform should not only be seen as a trade issue to be resolved at the WTO. Instead, it was argued, it is also a macroeconomic issue and one that relates to public finance. The principle of common but differentiated responsibilities was referred to, as well as the fact that the most vulnerable countries face constraint in what they can do. This is why the international community has a key role to play, including through international cooperation. It was observed that ODA still supports different kinds of activities related to fossil fuels. International public finance needs to be diverted from fossil fuel infrastructure towards RE investment. In this context, it was noted that Switzerland has adopted a firm position on fossil fuel investment projects in Multilateral Development Banks.

It was also noted that Switzerland's financial sector plays a critical role in allocating investment to fossil fuel- or RE-based production. The question was raised as to whether voluntary standards are enough for the private sector to shift towards greener modes of production, or whether further incentives would need to be discussed, also with a view to current developments in the EU. While sustainable finance is evolving, its full potential has not yet been realized.

## E. Concluding remarks

A consensus emerged that the different silos and areas are going to converge. Mutual support in achieving the climate goals and the SDGs is key, and it is important to start thinking in terms of package deals – for example, fossil fuel reform should go hand in hand with social measures, BTA hand in hand with technology transfer, etc.

In conclusion, the Roundtable itself was highlighted for successfully bringing together civil society, business representatives, academia, and different agencies of the Federal Government. The discussions contributed to advancing towards greater mutual understanding and convergence of trade and sustainability. While some participants called for broader debates accessible to non-trade experts, others advocated for a more detailed and technical exchange. It was noted that striking a balance is always a challenge. By striving to do so, the Roundtable successfully created a foundation for further conversations and engagement on trade, sustainability, and other topics beyond climate change that are relevant to achievement of the 17 SDGs.

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**Authors of the report:** Irene Musselli, Thomas Cottier, Elisabeth Bürgi Bonanomi; with comments from SECO

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## SECO Roundtable on Trade, Climate Change and SDGs

### Date and location

23<sup>rd</sup> June 2021, Eventfabrik Bern, Fabrikstrasse 12, Berne  
Covid-19 safety measures will be in place.

### Lead

SECO, supported by CDE & WTI

### Aim

The aim of the Roundtable is to discuss innovative trade-based measures to mitigate climate change – taking a holistic sustainability perspective - in order to inform the domestic policy debate. The Roundtable will bring together stakeholders representing different public interests. The discussion will be held under Chatham House rules, and the main findings will be summarized in a brief report (without mention of specific stakeholders).

### Hosts

Centre for Development and Environment (CDE) & World Trade Institute (WTI), University of Bern

Contact persons: Elisabeth Bürgi (CDE; [elisabeth.buergi@cde.unibe.ch](mailto:elisabeth.buergi@cde.unibe.ch)); Thomas Cottier (WTI; [Thomas.cottier@wti.org](mailto:Thomas.cottier@wti.org)); for Covid-19 related safety measures: Corinne Karlaganis ([Corinne.karlaganis@wti.org](mailto:Corinne.karlaganis@wti.org))

### Agenda

8.30 – 9.00	<i>Registration &amp; Coffee</i>	
9 – 9.15	<i>Opening Welcome Address</i>	Marie-Gabrielle Ineichen-Fleisch, SECO Peter van den Bossche, Director of Studies, WTI Thomas Breu, Co-Director, CDE
	<b>Introduction: Laying the Ground</b>	
9.15 – 9.25	Today's Programme and Sustainability Governance: Looking for solutions beyond the trade-offs	Elisabeth Bürgi Bonanomi, CDE
9.25 – 9.40	Climate Change & Trade: Relationship between Climate Change and Trade, Brief Overview of Trade Instruments <sup>1</sup>	Thomas Cottier, WTI

<sup>1</sup> Environmental Goods and Services (EGS), Border Tax Adjustment (BTA), Carbon Tariffs (i.a. tariff deconsolidation), related PPM issues, energy subsidies, sustainable electricity including grid issues, technology transfer, government procurement, non-discrimination

9.40 – 9.55	Practical Challenges & Policy Implications to the Use of Trade Instruments in Tackling Climate Change		Markus Schlagenhof, SECO
9.55 – 10.10	Q&A		All
10.10 – 10.30	<i>Coffee</i>		
	<b>Thematic Discussions</b>		
10.30 – 12.00	10.30 – 10.45 Main Messages	<b>Diffusion of renewable energy: Appropriate incentive framework, including transfer of green technology</b>	Zaker Ahmad, WTI, University of Chittagong, Bangladesh (virtual participation)
Moderation: Thomas Cottier	10.45 – 11.00	<i>Brief Perspectives</i> A perspective on the Environment A perspective on Development A perspective on the Economy	Patrick Hofstetter, WWF David Knecht, Fastenopfer Christian Zeyer, Swisscleantech
	11.00 – 12.00	<b>Open Discussion</b>	
12.00 – 13.00	<i>Lunch</i>		
13.00 – 14.30	13.00 – 13.15 Main Messages	<b>Carbon tariffs and related issues (including a perspective on BTAs)</b>	Thomas Cottier, WTI
Moderation: Elisabeth Bürgi	13.15 – 13.30	<i>Brief Perspectives</i> A perspective on the Environment A perspective on Development A perspective on the Economy	Franz Perrez, FOEN Philipp Ischer, SECO Kurt Lanz, Economiesuisse
	13.30 – 14.30	<b>Open Discussion</b>	
14.30 – 16.00	14.30 – 14.45 Main Messages	<b>Fossil Fuel Subsidies: Reform proposals</b>	Ilaria Espa, Università della Svizzera Italiana (virtual participation)
Moderation: Markus Schlagenhof	14.45 – 15.00	<i>Brief Perspectives</i> A perspective on the Environment A perspective on Development A perspective on the Economy	Laura Wyss, FOE/FDFA Pierre-André Cordey, SDC Lourdes Sanchez, IISD
	15.00 – 16.00	<b>Open Discussion</b>	
16.00 – 16.15	<b>Summary and Concluding Remarks:</b> Policy synergies		Summary: Elisabeth Bürgi, Thomas Cottier Concluding Remarks: Markus Schlagenhof