

# Trade and the Environment

## Implications of COVID-19

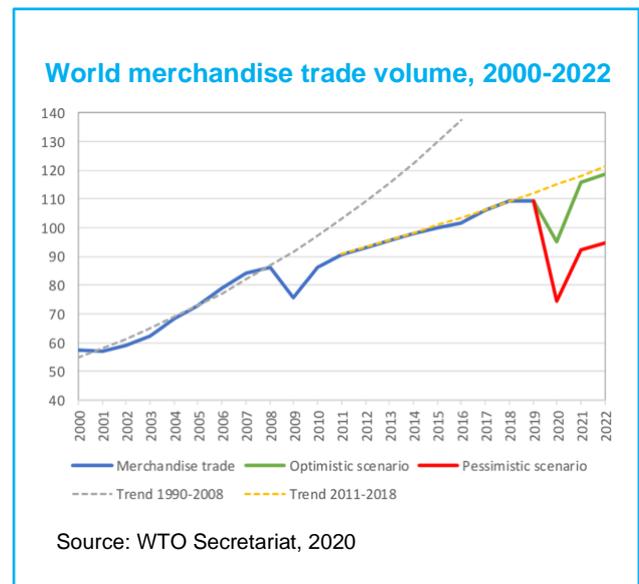
Trade is experiencing an unprecedented contraction due to COVID-19 and the prospects for a quick recovery depend on the duration of the pandemic and effective policy responses. Roberto Azevêdo, Director General of the World Trade Organization (WTO), noted that COVID 19 has caused dramatic supply and demand shocks in the world economy. WTO expects world trade to fall by 13 and 32 percent in 2020.<sup>1</sup> The United Nations Conference on Trade and Development (UNCTAD) predicts that global foreign direct investment could be cut up to 40 percent during 2020-2021, which will have major implications for global value chains.<sup>2</sup> Further, COVID 19-related trade measures have been implemented by many countries, especially for food and medical supplies exports, affecting supply chains and food and medical supply availability.<sup>3</sup>

### COVID-19's Impact on Trade and the Environment

There are other ways in which the pandemic will impact global trade:

**Falling prices and decreasing investment will cause disruptions in supply chains and trading patterns.** The collapse of supply and demand for many goods and services, decreasing investment and falling prices are contracting trade flows and national incomes. A global recession has already been confirmed by the International Monetary Fund.<sup>4</sup>

Estimates point to current fiscal stimulus measures to tackle the economic crisis in the order of around two percent GDP, which is greater than anything seen during the 2008 financial crisis.<sup>5</sup> Even though measures are being taken, unemployment is already



rising steeply. Many SMEs engaged in trade have gone or will likely go out of business. Stock markets and many commodity prices have already fallen significantly with major effects on trade flows. While some of the losses of output and jobs will be temporary, others will be permanent and economic uncertainty is likely to persist at least until the end of 2021.

**Disruptions in the movement of goods, technologies, components and people contribute to a reduction in carbon dioxide emissions but will also hurt green trade flows.** Both trends are amplified by the current drop in oil prices. Before the outbreak, clean energy technologies powering the Sustainable Development Goals and global efforts to pursue low-carbon development paths were increasing.

In 2019, the International Energy Agency predicted that renewable energy capacity will expand by 50 percent between 2019 and 2024. Such growth was based on functioning supply chains in climate technology stretching from China to Europe to Africa, the United States and Latin America.

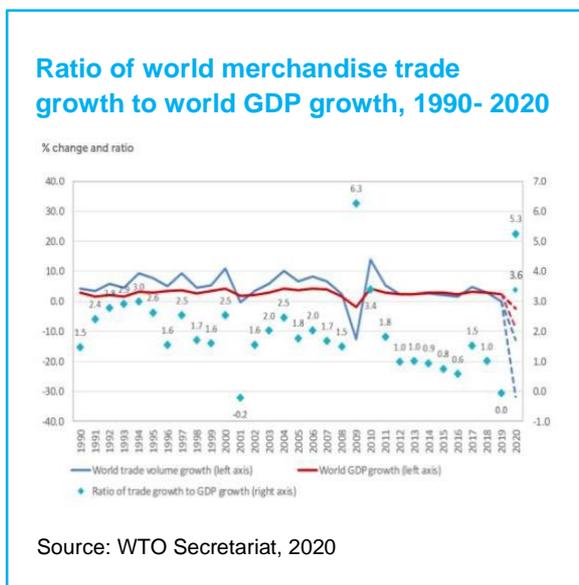
With the closure of borders and factories and drops in demand, supply chains have become fragmented. At the same time cheap fossil fuels are putting pressure on the renewable energy sources.

Whether the current drop in emissions can turn into a longer term trend will depend on the incentives structures embedded in economic stimulus packages and resulting behavioural changes, such as reduced air travel.

**Momentum on environmental action needs to be maintained at the WTO.**

The outbreak has delayed several key forums for discussion of trade reforms, such as the WTO ministerial meeting in Nur Sultan and ongoing negotiations on fisheries subsidies reform.

Greening trade and supporting a transition to a circular economy had gained significant political momentum in 2019, following the High-Level WTO/UNEP event, and the creation of a number of champions-led informal groups on greening trade policy.



Such groups include the Friends for Action on Sustainable Trade (FAST) led by Costa Rica and

Canada, discussion groups on Trade and Climate trade led by France and Canada, on Trade and Circular Economy led by Finland and Ghana; and on Trade and Plastic Pollution led by China and Fiji.

A Ministerial Trade and Environment segment was planned for the WTO Ministerial Conference in Nur Sultan in June 2020 based around the outcomes of the negotiations within the leadership group.

It will be important to maintain the momentum until the Ministerial Conference will be held in 2021. The additional time can create opportunities for countries and other groups to concretize the trade sustainability agenda, to join forces and increase inclusiveness by encouraging other members and civil society to join. The postponement also opens space for incorporating in the negotiations efforts to rebuild and recover economies in a more sustainable manner after the crisis.

**Way Forward**

**Reconnecting economies and rebuilding a more resilient and environmentally sustainable trading system.**

The following options support faster, greener recovery aiming for more resilient and sustainable trade:

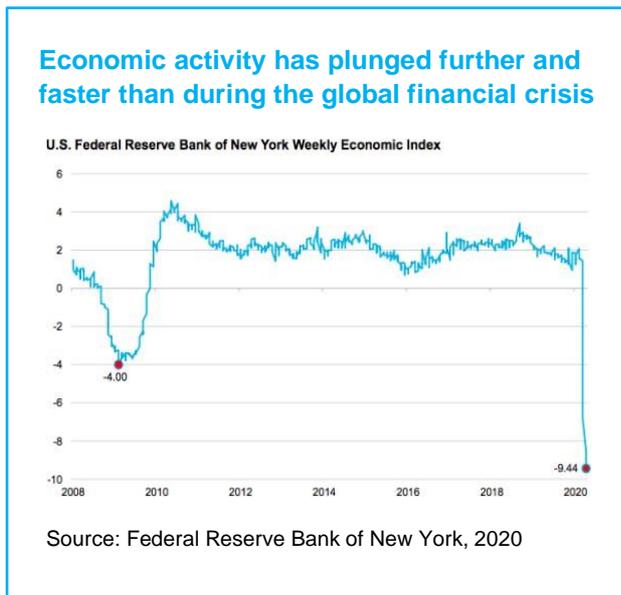
**Incorporating sustainable development and climate resilience and preparedness into trade policies and trade governance.**

The UN Secretary General has called for a sustainable recovery and a more inclusive path.<sup>7</sup> Instead of focusing on going back to 'business as usual', leaders should take the opportunity to steer recovery towards more resilient and sustainable international trade governance and trade patterns.

Apart from facilitating trade in green goods and services, it will be crucial for policy makers to focus on recovery measures that internalize externalities and address the negative effects of trade on climate change, pollution and biodiversity loss.

This includes reforming, at the WTO, subsidization of fossil fuels and fisheries as mandated in the 2030 Agenda.

Such reforms will level the playing field for trade, competitiveness and avoiding carbon leakage. As the role of regional trade and supply chains grows, it



is important that climate, circularity and nature objectives are fully incorporated in regional trade arrangements and policy frameworks.

**Connecting economies for rapid response and facilitating the flow of goods and services for disaster relief.** COVID-19 has underscored the interconnectedness of countries and the importance of resilient global value chains and trading system for emergency relief and disaster response. The break down of medical supply chains has severely hampered rapid responses and pointed to the lack of pandemic preparedness. Still, there are important lessons to learn from those who have managed to expedite imports of medical supplies, including emergency relief while providing adequate customs control and clearance.

Some countries have adopted cross-border emergency plans, including measures taken to reduce logistic bottlenecks that have affected trade in medicines, equipment and essential supplies to fight against the pandemic; and, measures to prevent supply chain disruption.<sup>8</sup>

**Facilitating increase of green trade and green investment flows.** Rapid recovery and expansion of green trade and investment will stimulate economic recovery while boosting the green transition.

Proposals to increase trade flow of environmental goods and services have attracted broad interest over the past decade, resulting in both plurilateral and regional negotiations to reduce tariffs and nontariff barriers. Such goods include renewable energy, managing waste and monitoring the quality of the environment. Estimates have shown that lowering tariffs on a broad range on environmental goods would lead to CO<sub>2</sub> reductions of 10 million tonnes by 2030 while increasing world trade by 1.1 percent.<sup>9</sup>

It will be crucial to provide capacity and incentives for innovation on clean technologies and enhance developing country participation in green value chains for such goods. UNEP's research has demonstrated that many developing countries have so far not fully benefitted from trade in environment goods and services and lack knowledge and capacity to harness related trade and investment opportunities.<sup>10</sup>

**Closing illegal and unregulated wildlife trade** is key to reduce the risk of future zoonotic epidemics and safeguard people's well-being and lives. Closure of illegal and unregulated markets is expected to generate a sizeable reduction in the purchase and flow of wildlife products in the future.

According to WWF, unsustainable wildlife trade is the second-largest direct threat to biodiversity globally, after habitat destruction. UNEP Executive Director Inger Andersen has also underlined the linkage between human health, wildlife trade and biodiversity loss.<sup>11</sup>

Temporary bans already put in place by major actors open an opportunity to fundamentally restructure wildlife trade by promoting sustainable management of wildlife, addressing habitat loss and fragmentation by conserving natural habitats for wildlife. At the same time, it will be important to consider the crucial role wildlife plays for livelihoods, especially for people in developing countries and the role of sustainable and legal trade in wildlife.

**Rebuilding sustainable food chains, promoting local trade and boosting exports in sustainable produce.** Uncertainty about food availability amidst the COVID-19 outbreak has sparked a wave of export restrictions on certain food stuffs, including some export bans, creating shortages on the global market.<sup>12</sup> For example, the availability of rice in sub-

Saharan Africa has decreased during the outbreak due to disruption of supply chains and national lockdowns.<sup>13</sup>

While the majority of global food supply chains is holding up for now, the World Food Programme has warned of further potential major disruptions in food chains, which would have devastating effects especially for African countries.<sup>14</sup>

COVID-19 recovery plans are an opportunity to incentivize more green exports of commodities and foodstuffs as well as greater sustainability in food systems. Studies have shown that green agriculture reforms, combined with changes in consumer behavior, could generate annual benefits in cities worth \$2.7 trillion by 2050.<sup>15</sup> Such reforms could help with the economic recovery, as well as building more resilient and sustainable food chains.

### **Assisting developing countries in building resilience and greening their export sectors.**

Building resilience will be a key element in supporting green trade and investment flows to the most vulnerable countries.

'Aid for Trade' offers an important tool to build resilience in several ways. It can be leveraged to rebuild economies in a more sustainable and resilient manner, favoring for example export diversification and productive capacity in sustainable agriculture. It can also boost resilience in production and livelihood systems and channel investments in sustainable infrastructure to enable countries to adapt to climate change and respond to natural hazards.

As Aid for Trade constitutes roughly 30 percent of total Official Development Assistance, the post-crisis recovery will be an important opportunity to promote systematically integrating environmental resilience and other sustainability aspects.

Both WTO and UNEP have been promoting such synergies.<sup>16</sup>

### **UNEP's Response**

With governments issuing stimulus packages and fiscal reforms to keep the economy going short term, all relevant stakeholders, including the UN, governments and businesses, should cooperate to address the crisis of the global economy with

stimulus packages and fiscal reforms. This presents significant opportunities for governments to simultaneously address environmental objectives and ensure that recovery leads to more sustainable outcomes.

A green recovery will ensure sustainable growth and an easier transition to a circular economy. Economic recovery could further be supported by trade measures such as reducing trade obstacles for environmental goods and technologies or supporting sustainable food systems.

In the long-term, restructuring the global economy and trade system will require coordinated international cooperation. Partnerships could be formed around issues such as how to make the trade system greener and more resilient. The negotiations should address topics such as environmental goods, wildlife trade and environmentally sustainable food supply, as well as injecting climate and nature objectives more systematically in trade governance.

**The Environment and Trade Hub at UNEP works with its network of partners to support countries to use trade as a vehicle for sustainable development and resilience. Its work is focused around four key areas:** 1. [Trade in Environmentally Sound Technologies](#); 2. [Governance at Trade & Environment Nexus](#); 3. [Green Markets & Global Value Chains](#); 4. [Reducing the Footprint of Trade and Greening the Brown](#). Through research, capacity building and policy advisory services the Trade Hub promotes mutually supportive trade and environment policies that better protect nature, build resilience and foster sustainable development.

**The Hub works closely with a network of partners and initiatives** including the WTO, the [Green Growth Knowledge Platform](#) and the [Partnership for Action on Green Economy](#). UNEP and WTO jointly initiated dialogues focused on exploring innovative ways to ensure that trade and healthy environments reinforce each other and published a joint report entitled [Making trade work for the environment, prosperity and resilience](#). This report was launched by UNEP's ED and WTO's DG a joint [High Level Environment and Trade Day](#) at the WTO in late 2018.

Through these partnerships and specific countries' support, UNEP's can help support countries in their

efforts to pursue the SDGs and a green post COVID recovery.

Such [offers](#) include: a) enhancing countries' capacities to build climate resilience and realize trade opportunities arising from the green economy transition; b) assisting countries to strengthen the sustainability aspects of trade agreements; c)

supporting trade in environmentally sound technologies; d) fostering public/private dialogues and partnerships to raise awareness and advance the global agenda on trade, resilience and the environment.

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