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# Green trade for sustainable development? Risks and opportunities on the road to a green economy

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## Green trade for sustainable development? Risks and opportunities on the road to a green economy

Bonn, 6 August 2012. The global economy is to become greener and fairer, and the climate catastrophe is to be combated with a green economy. Yet the approach is controversial, not least because many developing countries are afraid that an ecological transformation of the economy will mask protectionist restrictions of international trade that will reinforce the inequality between rich and poor countries and hamper development.

With its roadmap initiative at the Rio+20 Summit in June 2012 the European Union (EU) wanted to make the green economy process more binding. It failed because it could not overcome the scepticism of the developing countries. The source of this scepticism is a problem that the Union has with its credibility – which is, in turn, associated with its policies on both trade and the environment. As the developing countries see it, the EU defends trade liberalisation and environmental protection primarily when it is to its own advantage – and, when in doubt, at the expense of the developing countries. The post-Rio process will give the EU a chance to regain the developing countries' trust, but it will succeed only if it acts unambiguously and avoids double standards.

### **Rose-coloured spectacles or green protectionism?**

Rio+20 underscored the role that trade has to play in the achievement of sustainable development. Along with financing, technology and capacity-building, trade is known as an "implementation tool". It is indeed essential that trade liberalisation, environmental protection and socially inclusive development do not become conflicting goals.

However, the "green" transformation of the economy must not be misused for protectionist purposes. Particularly since the financial crisis began, protectionism, particularly in the G20 countries, has attracted more attention than it has for a long time and is therefore sounding alarm bells in many countries – and not only those in the developing world.

On the other hand, the transition to a green economy could open many doors to trade for developing countries. It is essential that those trading opportunities are identified and promoted, so that the developing countries can benefit from the transformation to an environmentally compatible economy. Rio+20 placed the emphasis on two issues: trade in environmental goods and services, and trade-distorting subsidies.

### **Removal of trade barriers for the green economy**

The liberalisation of trade in environmental goods and services has been on the agenda of the World Trade Organisation (WTO) since the beginning of the Doha Round. The removal of customs duties and other trade barriers would simplify access to goods and services that prevent or reduce air, water and soil pollution and so improve the protection of natural resources. Measures to protect the environment and technologies that increase energy and resource efficiency would then become cheaper. That would be advantageous for importers, especially in developing countries. It is important for them, for example, to have access to renewable energies that can be used without optimum infrastructure and so benefit poor people in remote areas.

Yet many developing countries are sceptical about this, fearing the green economy is being used as a pretext for gaining access to their markets. They are also concerned about having to compete with subsidised products in industrialised nations – without being able to take equivalent measures of their own. Any liberalisation package should therefore be backed by financial and technical support that enables poor countries to become more competitive in environmental goods and services.

The second important issue is environmentally harmful, trade-distorting subsidies, like those on coal and oil. According to the United Nations Environment Programme (UNEP), the abolition of subsidies on fossil fuels in the industrial and en-

ergy sectors could reduce global greenhouse gas emissions by 6 per cent owing to the consequent decline in demand. That is equivalent to the combined shares of Germany, France, the United Kingdom and Italy. While subsidies on fossil fuels are often defended as being socially inclusive anti-poverty measures, the International Energy Agency (IEA) claims that the poor benefit from only 15 per cent of them, the remainder going to the middle class, the people who own cars and air-conditioning units. A global agreement on the reduction of subsidies on fossil fuels – negotiated within the WTO framework, for instance – would be a significant contribution by trade policy towards a greener economy.

Also discussed at Rio+20 were fisheries subsidies, another important element of the Doha Round, which shows how the trade and environment agendas might be in accord with one another. For developing countries fishing is a major source of employment, food security and income. The majority of stocks in the world have been overfished, but it has so far proved impossible to reach an agreement banning subsidies. The reduction of subsidies may help to protect fish stocks. For the time being, however, European fishing fleets and fishing quotas continue to be to blame for much of the overfishing – thus undermining the EU's credibility. The reduction of subsidies in agriculture might also benefit sustainable development.

But the EU still gives European farmers massive support in the form of agricultural subsidies.

### **Trading for a green economy**

Trade can be a driving force for transformation to a green economy and for sustainable development. There are, for example, a number of “green” sectors that offer many developing countries opportunities to export a range of products – from organically grown fruit to clean and environmentally friendly technologies. Trade finance, particularly in the poorest countries, should support the production of environmentally friendly technologies and goods. Aid for Trade, or trade-related development cooperation, can help exporters in those countries to take greater advantage of their “green” export opportunities.

To summarise, there is a particular need for measures that help to strengthen the synergies of trade, a greener economy and sustainable development. The debate launched in Rio on “sustainable development goals” for the post-2015 development agendas may provide an opportunity for this. It will also give the EU a chance to assume a leading role in a sphere in which it can regain credibility through genuine commitment to sustainable development. That credibility is vital if the EU is to endeavour to continue playing a major role in the shaping of future global governance.



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