Net Zero: What implications for UK trade policy?

Introduction

Co-Directors, Emily Jones (University of Oxford) & Greg Messenger (University of Bristol)

We held a TaPP workshop on 21st April 2023 to discuss what the pursuit of Net Zero means for UK trade policy and this report provides a summary of the discussions.

The UK is committed to meet its Net Zero target (that is, reduce emissions by 100% compared to 1990 levels) by 2050. The UK government has proudly claimed that it is the first major economy to commit do so as a matter of national law, though progress has been slow thus far. Internationally, the UK has been active supporting the pursuit of Net Zero commitments through the UNFCCC and elsewhere. At COP27 last year, ISO launched the ISO Net Zero Guidelines, commissioned by the Our 2050 World collaboration which is convened by the UK's national standards body, the BSI. Meanwhile, the most recent UK government redesign has seen the creation of a new Department for Energy Security and Net Zero, at least symbolically stressing its importance for the current government. And it is not only the UK that is framing its climate policy through Net Zero - the EU's new Net-Zero Industry Act will form a key part of its Green Deal Industrial Plan.

What does the pursuit of Net Zero mean for UK trade policy? Which policy areas are mostly keenly engaged in Net Zero, and what opportunities and risks do Net Zero policies present for the UK both at home and abroad?

To consider these questions, our workshop included TaPP members and selected invitees, with special interventions from Andrew Lang (University of Edinburgh), Kateryna Holzer (University of Eastern Finland), Aik Hoe Lim (World Trade Organization), Markus Gehring (University of Cambridge), and Emily Faint (BSI).

The report concludes with specific proposals from the co-directors for the UK.

Climate Clubs: Governance Challenges for the Multilateral Trading System

Andrew Lang (University of Edinburgh)

The G7 has created a climate club which is open to all climate ambitious countries. The club's ambitions include achieving maximum global warming of 1.5 degrees and net zero by mid-century. The first of the three pillars that underpin the initiative focuses on domestic policy notably sharing of best practices and policy alignment (not harmonisation). The second pillar focuses on sectoral initiatives, reportedly starting with steel and cement and then moving to other sectors. The idea is to promote more integrated markets for sustainable materials, including through the development of common definitions and accounting standards. The third pillar focuses on cooperation and partnerships, including with developing countries. It is the most ambiguous of the pillars, referring to technology transfer and capacity building but without providing specifics.

While called a 'climate club' it does not correspond to the criteria set out in Nordhaus (2015) which include agreement on a shared carbon price, the imposition of costs on non-members through tariffs and, by assumption, no redistribution of club benefits amongst members. If a climate club is to work it must solve a number of governance challenges, including: agreeing methods for measuring embodied carbon; normatively defining 'net zero' (as net zero is a glide path not a specific figure and may vary by sector and member); addressing the question of how commitments will be monitored and audited; as well as determining mechanisms for determining comparability between different approaches taken by members.

What role might the WTO play with regards to such climate clubs? The WTO is well-suited for managing relations between participants and non-participants, including through keeping non-participants updated as appropriate on developments within the club, and serving as a mechanism for channelling the voice of

non-participants as regards the external impacts of the club. Once climate clubs are operational, the WTO can: support monitoring, especially with regards to unintended or adverse trade impacts; contribute to oversight of the accession process, to ensure it is non-arbitrary; support learning and improvement in the area of climate standards and accounting; and ensure alignment between climate club standards and wider international standards.

Product standards for a net-zero economy: addressing challenges through regulatory cooperation

Kateryna Holzer (University of Eastern Finland) and Aik Hoe Lim (World Trade Organisation)[1]

International cooperation is important for increasing the quality of carbon standards and in order to achieve some level of coherence and convergence. At present there is an unnecessary diversity of standards which employ different methods, leading to inconsistency and questionable environmental integrity. Alignment might occur through market forces, in line with the 'Brussels effect', where firms and countries align with standards set by large markets like the EU in order to maintain market access.

The EU's CBAM illustrates the challenges. Emissions allowances by importers will be determined by actual emissions, but how will this be verified? Existing certification methods are not harmonised. The EU is developing its own certification process for embedded carbon. The EU will need to apply the same principles to imported like-products, but how will these be certified? An additional complexity is that the EU's approach is based on factory- and plant-level assessments rather than firm-level.

To address the inconsistencies and ensure environmental integrity, the WTO can play an important role. The WTO is not a standard-setter, but its rules and principles can inform standard-setting and help ensure that standards meet their intended outcomes. The TBT Committee's 'Six Principles' to guide standard setting include: transparency, openness, impartiality and consensus, effectiveness and relevance, coherence, and a development dimension. They have had an important impact on the work of standard-setting bodies and are equally relevant for climate / carbon standards.

The WTO can also provide an important deliberative space. Principles need deliberation in order to grow a community of understanding, and the value of the convening power and deliberative function of the WTO is gaining recognition. In particular, the WTO and UNFCCC have an opportunity to foster dialogue between the trade and climate policymaking communities, which often operate in separate silos.

Trade and Paris Agreement NDCs – Possible Alignment for Net Zero? Lessons for the UK from EU-Americas Free Trade Agreements

Markus Gehring (University of Cambridge)

Analysis of Nationally Determined Contributions (NDCs) revealed that 108 (of 184) contained policy measures on trade and external investment. However, the disconnect between trade and climate policy communities persists. Some Free Trade Agreements (FTAs) do link to NDCs, including the EU-UK TCA, which incorporates aspects of NDCs (although the commitments are less ambitious). Closer alignment is yet to happen. For instance, in trade negotiations, countries could look at each other's NDCs and identify the

[1] Speaking in a personal capacity.

aspects that are useful to the partnership and weave those obligations into their trade agreements, thereby aligning trade agreements with NDCs.

The alignment of trade and climate commitments might sound straightforward, but it is controversial and presents political challenges. Additionally, trade negotiators are often unaware of the content of NDCs and the commitments their countries have made, while at UNFCCC meetings trade is rarely mentioned. Trade is seen as a touchy subject and knowledge of trade among policymakers involved in COP processes is weak. The trade and climate coalition ('The Coalition of Trade Ministers on Climate'), of which the UK is a member, generated an enlightening discussion but only a few countries are part of the coalition and it would be destined to fail if participation does not widen.

The Net Zero Guidelines

Emily Faint (BSI)

The International Standards Organization (ISO) developed the ISO Net Zero Guidelines in 2022, launching at COP27. The development was led by Our 2050 World, a collaboration between ISO, Race to Zero, and the UNFCCC Innovation Hub, convening over 1200 organizations and individuals from over 100 countries. This core reference text seeks to provide a common global basis for credible net zero action and aims to support regulatory alignment, targeting both organisations that implement net zero guidance to reach their own net zero targets and rule-setting organisations that create rules/guidance for others to follow. It contains detailed guidance and recommendations that covers all seven elements of net zero action, including just transition and recognition of historical emissions. The initiative recognises that there is a lot of movement on net zero standards in the voluntary space, and seeks to move from purely voluntary governance on net zero to a binding approach, and to ensure alignment with WTO principles.

The development of ISO Net Zero Guidelines modelled a different way of using ISO as an organisation by using an 'international workshop agreement' (IWA) approach rather than the issue slow process of national consultations. The process was agile (it took less than six months) and inclusive, involving more than 1200 organisations (including IPCC authors, UNFCCC, climate action organisations such as SBTi, civil society organisations etc) from over 100 countries. Alignment with WTO guidelines for standards development helped ensure developing countries participated. The process was consensus-led and aimed to harmonise and signpost across existing prominent standards in the landscape, seeking to collectively identify and distil best practice into one set of globally applicable guidelines to support practical implementation for all actor types. It should be noted that the ISO Net Zero Guidelines are not a standard that an entity can certify against directly, however they do provide a signpost to certifiable standards, and there has been enormous interest and uptake of the ISO Guidelines globally with tens of thousands of downloads in over 150 countries in just 6 months. More broadly, we may be at an institutional tipping point in the standard-setting system, as there are calls to review all existing ISO standards to ensure climate-alignment through ISO's climate commitment ('London Declaration').

Other points raised during the discussion:

- WTO is not a standard setter and it should not be, however it can be an effective bridge between the standard-setting and trade policy communities. For instance, in the area of carbon offsets, the WTO can be helpful in setting out meta-principles to guide specific schemes.
- The international investment law community was slow to recognise climate issues and has been the target of environmental activism which opens the prospect that trade will be next. There is a lack of understanding and dialogue between trade and climate policy communities, and there are information gaps at the political and technical levels. Although the situation is improving, many in the trade policy community still think 'climate' is an entirely separate issue, while many in the climate policy community fear the WTO and trade law as a barrier to climate action.

- In aligning trade, climate, and development, the climate community has the concept of common but differentiated responsibilities (CBDR), while the trade policy community has the concept of special and differential treatment (SDT). In providing flexibilities to developing countries, the trade community should work to ensure these are pro-climate, for instance by providing climate finance, rather than opt outs from environmental measures (such as carbon border adjustment mechanisms).
- The distributional issues that arise from carbon border adjustment mechanisms and other pro-climate trade measures are only just beginning to be understood and can be quite complex. For instance, the assessment of embedded carbon can vary between countries due to the energy mix, scrap metal availability, and default values. Similarly, measures which do not examine firm level emissions can create problems by incentivising firms to resource-shift among their factories / plants in order to comply, rather than reducing their emissions.

Conclusions

Co-Directors, Emily Jones (University of Oxford) & Greg Messenger (University of Bristol)

The presentations and subsequent discussions raised a number of interesting elements from a UK-specific perspective.

The first is to acknowledge that the development of the ISO Net Zero Guidelines should be considered a success for UK regulatory diplomacy. The ISO has many positive qualities but it is not fast. And in the climate space, urgent action is needed. As such, the innovative approach discussed above, developing an inclusive set of guidelines, driven from – but not exclusively by – a national standards body, has been a valuable example of what could be done to attempt to mitigate some of the challenges that the presentations touched on in relation to conflicting or overlapping methodologies and approaches to net zero and climate action.

Acknowledging that as 'Guidelines' and not 'standards', their formal legal impact is limited, nonetheless, there is much that can be done to support the adoption of the ISO Net Zero Guidelines.

At a general level, trade policy professionals (whether governmental or not) can refer to the ISO Net Zero Guidelines to support stronger, consistent alignment across different levers of governance with respect to net zero (e.g. embedding definitions such as 'net zero', 'residual emissions', including specific references to the ISO Net Zero Guidelines in policy documents and the development of new agreements that refer to net zero).

The UK itself is also able to support this process:

- whether through supporting discussions **at the WTO** which speakers noted plays a key role in providing an important discursive space to share information and develop best practice, or through its own FTA policy.
- As was noted, **FTAs** can - but often do not - align climate and trade objectives. Yet in this instance, the use of the ISO Net Zero Guidelines could be a great support, whether through **explicit incorporation** by reference in new FTA treaty text, or **inclusion of definitions** in new agreements (including those undergoing 'modernisation' negotiations).
- Indeed **existing FTAs** may allow for the acceptance or acknowledgement of the Guidelines **through their committees** where the FTAs allow the parties to develop common positions, take decisions, and developed shared understandings.
- And **UK development policy** can embed these understandings while seeking to more effectively empower developing country partners to participate in the green economy and benefit, rather than be excluded, from developments in climate trade policy.

None of these actions will, individually, resolve challenges in relation to climate action but they could help develop an effective shared vocabulary and understanding of core terms and practices in the pursuit of net zero policies.