

Trade and Environment Briefings: Trade and Green Economy



International Centre for Trade
and Sustainable Development

Introduction

Trade liberalisation has the potential to facilitate the transition to a green economy by fostering the exchange of environmentally friendly goods and services, increasing resource efficiency, generating economic opportunities and employment, and contributing to poverty eradication. However, if managed poorly, unrestrained trade can contribute to environmental degradation, unsustainable resource use and increased wealth disparities. In other words, the impact of trade on a green economy transition depends in large part on how trade policies are designed and applied and whether adequate national and institutional conditions (e.g. institutional and regulatory regimes) exist to cope with the impact of liberalisation.

The impact of green economy policies on trade can also vary considerably. A number of countries have voiced concern that green economy policy measures, such as subsidies, standards, intellectual property rights and border measures, might be used to restrict international trade. Again, how these measures are designed and applied is of critical importance and will determine their overall impact.

Background

A green economy transition will only be possible if countries create the right enabling policy framework. The following reflect some of the trade-related measures that many countries are currently using, or considering, in support of their green economy efforts:

- **Standards:** Standards are conditions with which products or services, including their production and distribution methods, *must* comply with (mandatory) or *should* comply with (voluntary) for the product or service to benefit from certification or labelling. Environmental standards can inform consumers about products, services and production processes and thus stimulate markets in sustainable goods and services.
- **Public procurement:** Governments can use sustainable public procurement, or “green” public spending, to promote markets in sustainable goods and services and to generate employment in such markets.
- **Intellectual property rights (IPRs):** IPRs provide legal protection over creations of the mind, including inventions. IPRs can encourage

innovation in environmentally sound technologies by enabling the innovator to recover some of the costs associated with the product development. On the other hand, however, IPRs can make it more difficult to access such technologies, particularly for developing country entities with limited financial resources.

- **Subsidies:** Governments subsidies that provide financial assistance to green economic activities (“green subsidies”) can create or strengthen green economic sectors and mobilise private investment in those sectors. Moreover, eliminating or minimising certain other government subsidies that promote environmentally harmful and economically unsustainable activity (“brown subsidies”) can be an effective means of supporting cleaner alternatives. For example, price and production subsidies for fossil fuels collectively exceeded US\$650 billion in 2008 (IEA et al. 2010) and undermine efforts to transition to renewable energy sources.

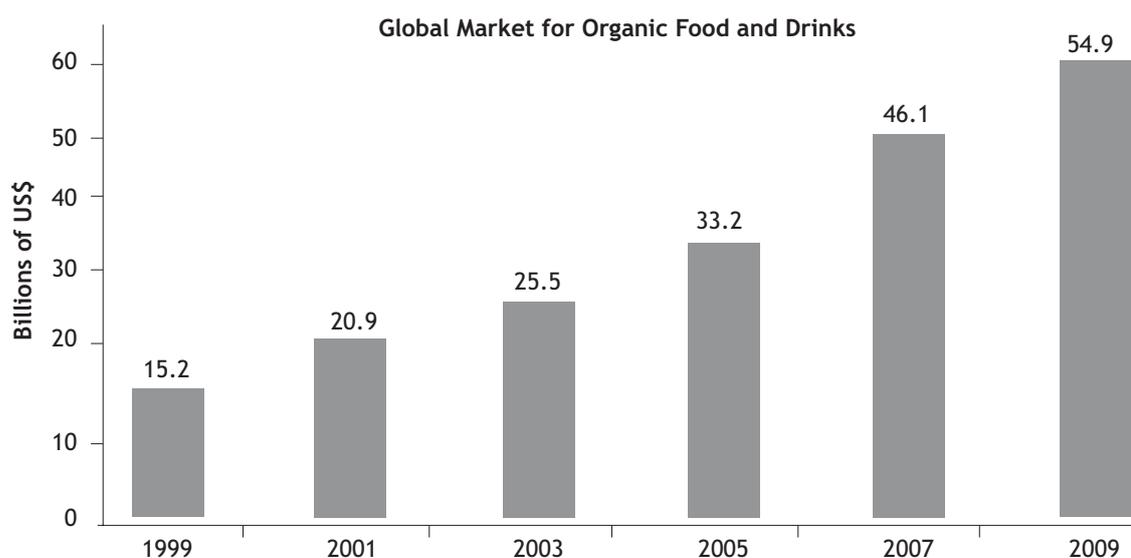
Opportunities

Trade can be an overall driver in the transition to a green economy by helping to create and strengthen markets for sustainably produced goods and services. There are numerous opportunities in green markets for developing countries.

The following are some of the areas in which significant trade opportunities are likely to exist:

- **Sustainable agriculture:** The growth of the global market for sustainable agriculture presents opportunities for developing countries (See Figure 1). Global trade in organic food, drinks, fibre and cosmetics is estimated to be valued at over US\$60 billion per year. About one third of the world’s agricultural land (12.5 million hectares) and more than 80 percent of the producers are in developing countries and emerging markets. Demand for organic products is concentrated in North America and Europe, which comprise 96 percent of global revenues.

Figure 1: Global Trade in Organic Food and Drinks (1999-2009)



Source: *The global market for organic food and drink, Organic Monitor, December 2010*

- **Biodiversity-based business:** Biodiversity-based businesses include biodiversity-friendly production of commodities (food, timber, fabrics) or the sustainable use of ecosystems (tourism, extractives, cosmetics, pharmaceuticals). These businesses are increasingly recognised as a means of providing incentives for the sustainable management of biodiversity, while simultaneously creating employment opportunities and livelihoods. The demand for many biodiversity-based products such as natural cosmetics, medicines, food and food ingredients has grown significantly and shows considerable potential for further growth.

Consequently, profits from these developments can be significant: for example, the value of anti-cancer agents from marine organisms was estimated at up to US\$1 billion in 2006.

- **Sustainable fisheries:** While several reports have documented the losses in the fisheries sector mainly due to overfishing, many others show the potential gains from a transition to sustainably managed fish stocks. According to UN estimates, approximately 85 percent of the world’s fish stocks are overexploited, depleted, or recovering from depletion, but the same

estimates also show that the world economy can gain up to US\$50 billion every year by restoring stocks and reducing fishing capacity to an optimal level. For example, in Bangladesh the potential economic gains from reducing current fishing efforts of the Hilsa Shad fishery, the biggest single species fishery in the country, to a sustainable level are in the order of US\$260 million annually.

- **Environmental goods and services:** Based on recent estimates, the market for environmental goods and services is already very large (comparable in size to the pharmaceutical and aerospace sectors) and demand is expected to significantly grow in the near future. In 2006, the global market for environmental goods and services was valued at US\$690 billion, with some analysts expecting it to rise to US\$1.9 trillion by 2020. It is now recognised that environmental services, in sectors such as tourism or energy production, can deliver both economic and social benefits. Within the environmental industry, services represent the most important component, accounting for 65 percent of total market value.
- **Certified timber:** The expansion of the market for certified wood, driven mostly by demand in the United States and the European Union, creates export opportunities for many developing countries. Certification schemes for the forestry sector include the Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification Scheme (PEFC), and the Rainforest Alliance. By May 2009, the global area of certified forest endorsed by FSC and PEFC amounted to 325.2 million hectares, approximately 8 percent of global forest area.

Challenges

A number of countries have voiced concerns regarding the transition to a green economy. Principal among these are the following:

- **Trade protectionism:** Concern exists that the green economy concept might provide cover for unjustified protectionist measures or restrictions on international trade for a particular good or service not deemed “green”. Standards, IPRs, or subsidies, for instance, may be used to stimulate markets and innovation in sustainable goods and services, but such measures can also protect domestic industries from foreign competition.

- **Structural change:** A transition to a green economy will entail some degree of economic restructuring: demand for environmentally harmful goods and services should decrease and demand for sustainable goods and services should increase. The concern is that not all countries will experience balanced impacts, and some countries and/or sectors within countries may be affected negatively.
- **Conditionality:** The concern is that international and bilateral efforts to support the transition to a green economy in developing countries could involve conditionalities on public financing and development aid.

What's next?

A number of actions at the international and national levels can create the right conditions to harness trade opportunities in a green economy and mitigate potential risks. The successful conclusion of the ongoing WTO Doha Round could, for instance, offer opportunities to support a green economy transition if agreement is found in areas such as reduction or elimination of harmful fisheries subsidies, reduction of tariff and non-tariff barriers on environmental goods and services, and strengthening of the relationship between the WTO and multilateral environmental agreements. The following measures and tools can also contribute to create an enabling environment for a transition to a green economy:

- **Harmonisation of environmental standards:** The current proliferation of standards can inflict high costs on businesses, particularly in developing countries, hindering access to lucrative markets in developed countries. There is a need for the international community to work towards harmonising environmental standards or promoting equivalency among standards, to the extent possible, across countries. For example, product carbon footprint standards are becoming an increasingly important tool to assess and reduce greenhouse gas emissions related to consumer goods, including food and other agricultural products. In the next few years, as carbon accounting becomes increasingly widespread, it will be important to keep a number of issues in mind such as more actively engaging developing country stakeholders in the international standard-setting process to ensure that standards accurately reflect their economic, social and environmental realities.

Moreover, it will be important to create the right enabling conditions for promoting harmonisation and equivalencies in methodologies, standards and certifications.

- **Trade facilitation and capacity building:** A shift towards a green economy could require the strengthening of governmental, private sector and civil society capacity to analyse challenges, identify opportunities, prioritise interventions, mobilise resources, implement policies and evaluate progress. Training and skill enhancement programmes may also be needed to prepare the workforce for a green economy transition. One of the most effective means of achieving this is by strengthening national institutions and laws that govern trade liberalisation processes. For example, the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries (IF) is a multi-institutional initiative in which the host country government

works in close cooperation with technical experts to identify and overcome barriers to increased integration into the global trading system.

- **Liberalisation of environmental goods and services:** The market for environmental goods and services is set to grow substantially over the coming years. A successful conclusion of the on-going WTO Doha Round has the potential to unlock opportunities to support growth in the environmental goods and services trade including by reducing tariffs and enhancing market access. In addition, a number of other factors at the national, regional and international levels can help create the right conditions for developing countries to expand their presence in this market, such as the liberalisation of environmental goods and services through regional and bilateral trade agreements, or the creation of appropriate regulatory frameworks to support the development of infrastructure-related environmental goods and services.

Resources

ICTSD (2007), Regulatory Principles for Environmental Services and the General Agreement on Trade in Services, Issue Paper 6

ICTSD (2009), Climate Change and Fisheries: Policy, Trade and Sustainable Development Issues

ITC (2012), Product Carbon Footprint Standards in the Agri-Food Sector

UNEP (2011), The Green Economy Report - Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication

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Founded in 1996, the International Centre for Trade and Sustainable Development (ICTSD) is an independent think-and-do-tank based in Geneva, Switzerland and with operations throughout the world, including out-posted staff in Brazil, Mexico, Costa Rica, Senegal, Canada, Russia, and China. By enabling stakeholders in trade policy through information, networking, dialogue, well-targeted research and capacity-building, ICTSD aims to influence the international trade system so that it advances the goal of sustainable development. ICTSD co-implements all of its programme through partners and a global network of hundreds of scholars, researchers, NGOs, policymakers and think-tanks around the world. ICTSD acknowledges the contribution of its donors in supporting this project.

About the International Trade Centre, www.intracen.org

Formed in 1964, the International Trade Centre (ITC) has been the focal point within the United Nations system for trade related technical assistance (TRTA). ITC's mission is to enable small business export success in developing and transition-economy countries, by providing, with partners, sustainable and inclusive development solutions to the private sector, trade support institutions and policymakers. Working with partner organisations, both within and outside the United Nations, ITC works to promote projects and programmes with global efforts to achieve the Millennium Development Goals and the Aid for Trade agenda.

About the United Nations Environment Programme (UNEP), www.unep.org/

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