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POLICY ANALYSIS

We Need More Hybrid Trade and Environment Agreements

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The WTO's double pronged approach of more coercive trade tools for environmental goals and soft environmental talks will not deliver the anticipated change on either the trade or environment front. Tancrede Voituriez, senior researcher at CIRAD, suggests that hybrid trade and environmental agreements are more promising.

By Tancrede Voituriez on January 15, 2023

As the World Trade Organization (WTO) takes on more environmental issues and unilateral initiatives by big players such as the European Union entail explicit border measures to address environmental targets, the governance of trade and the environment returns to the forefront of both agendas. We argue that the double move of more coercive trade tools for environmental goals and more soft environmental talks at the WTO won't deliver the expected change on either the trade or environmental front. Hybrid trade, along with environment agreements such as the Agreement on Climate Change, Trade and Sustainability initiated by New Zealand, seem a more promising option.

The politics of global environmental change can be described as a dynamic process unfolding along two axes: horizontal diffusion —with the successive inclusions of environmental issues and actors—and vertical enforcement. The former can be observed with the rising trend of multilateral environmental agreements (MEAs) and the growing number of signatories, and vertical enforcement, with the addition of legally binding instruments, such as protocols to solve the wicked problem of implementation.

We live in such a verticalization moment. In the well-known “bell curve” chart of MEAs signed in the last 170 years, based on the [International Environmental Agreements Database Project](#), we can see the double move of expansion and verticalization unfolding over time, with protocols adding up to agreements over years to give the latter a bit more teeth. The [bell curve](#) also clearly shows that the peak of expansion is behind us. The verticalization of MEAs—meaning the definition of mechanisms to solve the implementation issue—is now the driving force shaping the politics of global environmental change.

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The novelty of the period lies in the proliferation of vertical mechanisms, beyond the narrow case of protocols. Initiatives or coalitions encompassing public and private stakeholders have been flourishing to crack broad MEAs into deliverable outcomes. The Paris Agreement is a good case in point. The 2021 United Nations Climate Change Conference (COP 26) in Glasgow showed a blooming of plurilateral initiatives—on deforestation, methane, transport, and just energy transition. In a goal-driven approach similar to the one underpinning the MEAs and their protocols, these vertical initiatives remain rather elusive, however, on how exactly their transformative goals should be reached. This is where unilateral trade measures come in.

Can Border Measures Solve Transboundary Issues?

Formulated like this, the question suggests that a reasonable answer is “no.” Yet some of the most vibrant advocates of

Adjustment Measures (CBAM) and deforestation-free commodities.

The European Commission proposed [CBAM](#) in July 2021 as part of a broad legislative package to reduce net domestic greenhouse gas emissions in Europe by at least 55% by 2030 compared to 1990. CBAM aims to avoid carbon leakage risks for European industry covered by the EU emissions trading system (starting with five sectors: aluminum, cement, electricity, and fertilizers as well as iron and steel—a list that could expand over time). It intends to create a level playing field between imports of carbon-intensive products that face little or no carbon cost abroad and domestic production in Europe bound to face rising carbon costs under the EU emissions trading system.

Contrary to earlier [versions](#) of CBAM—such as the one put forward by then-French Prime Minister Dominique de Villepin in 2006 and taken over a year later by then-President Nicolas Sarkozy (CBAM somehow looks like a French obsession)—the selling argument to other nations is that CBAM is not a stick, but a carrot. It is expected to create incentives for exporting countries to increase climate ambition and raise CBAM revenues at home (through domestic carbon taxes, for instance) instead of letting the European Union collect them at its own borders.

This shift toward unilateralism has raised some [concerns](#) among EU partner countries—not because of unilateralism per se, but because of this unprecedented use of trade measures to meet non-trade objectives. Similar concerns arose over proposed legislation on deforestation-free value chains tabled by the Commission in November 2021 in a bid to curb deforestation and forest degradation driven by the expansion of agricultural land used to produce specific “forest-risk commodities” (starting with cattle, cocoa, coffee, palm oil, soya, and wood). The proposed regulation is set to impose [due diligence](#) obligations on operators placing these commodities and some derived products on the EU market.

Despite the risk of a backlash by trade partners, the Commission argued that all these unilateral measures pass the test of WTO compatibility and serve a global good. In short, they are unilateral by design but multilateral by intention. The paradox is that this unilateral “verticalization” of environmental politics through trade-related measures gives the WTO the role of last-resort arbitrator at a time when the organization has never been as far from being able to exercise it and is rather keen to “horizontalize” its outreach and action.

The Standstill at the WTO Stretches Horizontally

seems to follow an orthogonal move. With the exception of the agreement on fishery subsidies, past development at WTO has shown a horizontal extension toward environmental issues—with limited teeth, to say the least, when it comes to enforcement. The Trade and Environmental Sustainability Structured Discussions (TESSD), the Informal Dialogue on Plastics Pollution and Sustainable Plastics Trade, and Fossil Fuel Subsidy Reform (FFSR) illustrate this move toward the WTO as a forum providing guidelines and best practices—something like the Organisation for Economic Co-operation and Development, if you wish—but not enforcement mechanisms and binding provisions per se.

The TESSD initiative, which now has 71 members, [focuses](#) on promoting transparency and information sharing, identifying areas for future work in the WTO, supporting technical assistance and capacity-building needs (especially for least developed countries), and working on “deliverables” of environmental sustainability. In a rather similar approach to the Paris Agreement, which rests on procedural obligations, the TESSD unfolds through stocktaking events, review of progress achieved—including the identification of good practices, voluntary actions and partnerships in relevant areas—as well as adoption of the next steps to boost ambition.

The governance of trade seems to follow an orthogonal move.

The Informal Dialogue on Plastics Pollution and Environmentally Sustainable Plastics Trade’s 70 WTO members hope to address the rising environmental, health, and economic costs of plastic pollution using trade as an instrument to reduce plastic pollution and promote environmentally sustainable trade in plastics. It entails no vertical, binding obligation, either.

Fossil Fuel Subsidy Reform, co-sponsored by 47 WTO members, is the third “[sister](#)” initiative on the environment at the WTO level. The FFSR joint ministerial statement following the COP 26 climate pledge asserted, among other things, that the WTO “can play a central role in the reduction of trade and investment distortions caused by fossil fuel subsidies by achieving effective disciplines on inefficient fossil fuel subsidies.” Yet like its two sisters, FFSR serves as a forum to deepen understanding and exchange good practices rather than negotiate.

What Is the Best Solution?

governance. It won't make the WTO the norm setter it used to be before the Doha round derailed and the "my country first" motto pervaded across some of its founding members. Putting more environment in WTO talks and more trade measures in MEAs does not rule out the risk of trade conflicts and environmental pushback.

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An intermediate option, which could be the intersection between the two orthogonal paths we have described, would be to negotiate plurilateral hybrid [trade and environmental agreements](#) encompassing these two dimensions. From the start, they would be conceived as a cooperative mechanism, contrary to CBAM, which was designed by Europeans for Europeans. And, contrary to the three sister initiatives, they would be integrated and enforceable agreements.

The hybrid [Agreement on Climate Change, Trade and Sustainability](#) initiated by New Zealand looks like a frontrunner in this respect. It is plurilateral yet closely linked to the WTO. Countries serious about their involvement in the sister initiatives and the "cooperative dimension" of their CBAM would be well advised to join it.

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