

Roundtable on Trade and Sustainability

Bern, Switzerland, 6 June 2023

Joint summary report, 7 November 2023

Executive summary

About 70 experts and stakeholders participated in a one-day roundtable under Chatham House rules on the trade-sustainability nexus, convened by the Swiss State Secretariat for Economic Affairs (SECO) and foraus, the Swiss Forum on Foreign Policy, on 6 June 2023. The roundtable discussed the promotion of sustainability, on the one hand, through preferential trade agreements and, on the other hand, through multilateral trade cooperation, while assessing the role of unilateral trade measures. To comprehensively address sustainability issues, in particular climate change, the first-best solution discussed during the roundtable would be an effective multilateral agreement covering trade-related issues and including incentives as well as prohibitions. As long as a consensus on such a multilateral agreement is not found, the second-best solution involves preferential trade agreements that implement existing sustainability regimes, develop widely accepted sustainability standards, and provide possible supportive measures. Agreements, such as the ongoing initiative for an Agreement on Climate Change, Trade & Sustainability (ACCTS), could serve as a stepping stone towards achieving a broader global consensus on climate-related trade measures. The discussion identified several possible measures that could strengthen the positive contribution of free trade agreements to attain sustainability objectives such as carbon neutrality, while acknowledging that fostering more environment-positive trade requires a combination of solutions beyond pure trade arrangements. Key approaches to improving global cooperation on the trade-sustainability nexus have been identified as increasing transparency efforts, informing other countries of upcoming trade-related climate measures as early as possible, and where possible, by discussing such measures in multilateral fora. On unilateral measures, on the other hand, views differed on whether they may trigger multilateral progress on sustainability or rather worsen existing deadlocks. As for plurilateral measures, it was noted they provided a positive impetus to the WTO discussions on trade and environment and that they can play a positive role in standard setting, as long they are inclusive, transparent, compatible with international trade law and development-friendly. Overall, the roundtable enabled stakeholders and civil society to be informed by experts in the field on current developments at the intersection of trade and sustainable development, while ensuring a relevant dialogue.

Table of contents

1. Setting the stage: the Trade & Sustainability Nexus	2
2. Promoting sustainability through international trade agreements	3
3. Promoting sustainability through multilateral trade cooperation (such as at the WTO) and assessing the role of unilateral measures	5
4. Further references	8

1. Setting the stage: the Trade & Sustainability Nexus

1a. Context

A one-day roundtable on the trade-sustainability nexus was held in Bern, Switzerland, on 6 June 2023. It was convened by the Swiss State Secretariat for Economic Affairs (SECO) and foraus, the Swiss Forum on Foreign Policy. Altogether, about 70 experts and stakeholders from international organisations, science, business, civil society and the federal administration participated in the event.

The roundtable was dedicated to the question “How can international trade policy and regulation promote sustainability?”, with a focus on environmental aspects. It was divided into two sessions of half a day each. The first part was devoted to promoting sustainability through deep international trade agreements, while the second part focused on promoting sustainability through multilateral trade cooperation such as the World Trade Organization (WTO) and the role of unilateral measures. Each session included a panel of renowned experts as well as small working groups involving all participants in breakout sessions.

This brief report provides a summary of the presentations and discussions held. The Roundtable was conducted under Chatham House rules. The report therefore does not identify personal views expressed and is essentially limited to issues and discussions.

1b. The state of the debate

Switzerland has long been committed to an open international trade policy. As part of its foreign economic policy, Switzerland pursues three key strategic objectives: (1) a rules-based international order with broad support, (2) non-discriminatory access to global markets, and (3) economic relations that contribute to sustainable development.

This last strategic objective reflects the anchoring of the interdependence between trade and sustainability at the heart of Swiss foreign economic policy and Switzerland’s commitment to the 2030 Agenda. Its formulation reflects the growing international shift seen internationally from siloed approaches towards the harnessing and enhancing of positive contributions of trade to sustainable development.

To that end, this roundtable’s aim has been to uncover potential synergies and tensions that arise when trade interacts with sustainability considerations, acknowledging the complexities and trade-offs that underpin these dynamics, and to gain a better understanding of the interdependencies between these issues through dialogue and exchange of perspectives and insights among experts.

2. Promoting sustainability through international trade agreements

The morning session discussed how sustainable development can be promoted through deep international trade agreements.

Following introductory remarks by Eric Scheidegger (Deputy Director, SECO) and Marion Jansen (Director of the Trade and Agriculture Directorate, OECD), the following experts participated in a panel discussion (in alphabetical order):

- Isolda Agazzi (Member of the Ex. Board and Head of Trade and Investments, Alliance Sud)
- Matteo Fiorini (Trade Policy Analyst in the Trade Policy Division, OECD)
- Mona Haddad (Global Director for Trade, Investment and Competitiveness, World Bank)
- Prof. Joost Pauwelyn (Co-Director of the Centre for Trade and Economic Integration, Graduate Institute)
- Markus Schlagenhof (Head of the World Trade Division in the Foreign Economic Affairs Directorate, SECO)

2a. Contribution and impact of international trade agreements on sustainability and a global carbon-neutral future

The impact of deep, preferential international trade agreements on sustainability objectives and a global carbon-neutral future is ambivalent. Research has so far been inconclusive, with evidence pointing in both directions depending on a wide range of factors and a lack of studies comparing between *ex-ante* and *ex-post* impact assessments.

The discussion acknowledged the complexity of the issue and identified several possible actions that could strengthen the positive contribution of free trade agreements (FTAs) to carbon neutrality, including by:

- a) Focusing and improving the implementation of existing sustainability and trade regimes. Two possible pathways to that end are to take better account of the domestic political context during negotiations and to embed cooperation mechanisms in FTAs, in particular by involving key domestic stakeholders through dialogue and consultation;
- b) Developing widely accepted sustainability standards and including commitments to those standards in new FTAs. Two examples of lacking standards that hamper contributions to carbon neutrality were given: an agreed method of calculating carbon pricing (including an agreed measurement of carbon footprint) as well as an agreed definition of an environmentally-friendly subsidy;
- c) Providing adequate capacity building and technical assistance to developing countries for implementation and monitoring purposes, and supporting international organisations and public administrations in their efforts to better coordinate their trade and environment teams.

2b. Innovative trade solutions initiatives and international dispute settlement mechanisms in favour of sustainability

Several recent trade initiatives and mechanisms that favour sustainability were brought to the attention of participants, such as the Global Trade and Gender Arrangement (GTAGA), the ongoing initiative of the Agreement on Climate Change, Trade and Sustainability (ACCTS) as well as the EFTA-Indonesia Comprehensive Economic Partnership Agreement (CEPA) with an emphasis on the conditionality for palm oil products. Generally, different categories of innovations could be distinguished: product-specific mechanisms (e.g., on palm oil), sector-specific mechanisms (e.g., for supply chains) or actor-specific innovations (e.g., the US-EU Trade & Technology Council).

One strand of the discussion focused on dispute settlement for trade and sustainable development (TSD) chapters of FTAs. It was highlighted that recently concluded FTAs increasingly provide for stronger enforcement mechanisms (e.g., the possibility of sanctions in the EU-New Zealand FTA in case of violations of the Paris Agreement or fundamental labour standards). One area for which a need for further work was identified are the alternatives to traditional State-to-State dispute settlement procedures, such as in the case of the United States-Mexico-Canada Agreement (USMCA) on certain labour rights. Moreover, the increasing inclusion in FTAs of enforceable obligations related to Multilateral Environmental Agreements (MEAs) was noted. As MEAs often lack an internal dispute settlement mechanism involving adjudication and sanctions, the utilization of FTAs as platforms for MEA enforcement was discussed. Some participants noted that it may create inconsistencies and that alternative dispute settlement mechanisms such as mediation might be better suited to address any issues arising over the implementation of the relevant obligations. Others viewed the development towards enhanced enforcement mechanisms for TSD chapters as a positive development and that further work should be focused on the nature and possible added value of introducing of sanctions.

Overall, the main takeaway was that FTAs are only one piece of the puzzle towards a global environmental transition and that fostering more environment-positive trade requires a combination of solutions beyond pure trade arrangements, including intellectual property rules and favourable investment conditions. Views differed on other issues, such as the merits and pitfalls of incentive-based measures as opposed to sanctions. The question was also raised as to whether successful solutions for promoting sustainable development objectives through FTAs could be directly and explicitly integrated into future MEAs such as follow-up agreements to the Paris Agreement.

2c. Mutual supportiveness of international trade and climate agreements, to advance sustainable development

Several mechanisms through which trade and climate agreements could be mutually supportive were discussed, including new opportunities for developing and least-developed countries to export green goods such as solar panels and lithium batteries, leveraging

existing raw material extraction to move towards technical know-how acquisition and export manufacturing, therefore enabling them to generate significantly higher value-added. In the new geopolitical context, the importance of both ensuring food security to advance the 2030 Agenda through FTAs and diversifying supply chains was also emphasised.

Generally, there was a broad agreement that two different approaches were possible to ensure mutual supportiveness. The first-best solution would be to have an effective, multilateral agreement that includes incentives and prohibitions to comprehensively address climate change issues in international trade. However, given the challenges of reaching such a global agreement by consensus, the second-best solution is bilateral or regional trade agreements. These agreements, such as the ACCTS initiative, could serve as a stepping stone towards achieving a broader global consensus on climate-related trade measures. International cooperation was seen as essential to avoid regulatory fragmentation.

Other ideas raised included the establishment of cooperation initiatives for technology transfer and technical assistance to developing and least developed countries (e.g., on environmental services or carbon pricing) and the benefit of leveraging existing standards for sustainability-driven mutual conditionalities (e.g., for government procurement). Some participants also raised concerns about the fact that greenhouse gas emissions generated by a country through trade are not taken into account in its climate commitments, claiming that Switzerland's emissions are virtually tripled if the indirect impact of Switzerland's imports from other countries is taken into account.

3. Promoting sustainability through multilateral trade cooperation (such as at the WTO) and assessing the role of unilateral measures

The afternoon session discussed possible approaches to reach multilateral trade cooperation (such as the WTO) and the role of unilateral measures in achieving sustainable development.

Following introductory remarks by Ivo Germann (Head of the Foreign Economic Affairs Directorate, SECO) and Markus Reubi (Delegate of the Federal Council for the 2030 Agenda, Federal Department of Foreign Affairs (FDFA)), they were joined by the following experts in a panel discussion (in alphabetical order):

- Jan Atteslander (Head of International Relations, *economiesuisse*)
- Clotilde du Parc (Head of the Geneva office, Van Bael & Bellis)
- Vanessa Erogbogbo (Chief of Section, Green & Inclusive Value Chains, ITC)
- Gabrielle Marceau (Associate Professor at the Law Faculty of the University of Geneva)
- Rupa Mukerji (Director, Advisory Services, Helvetas)
- Achim Schafer (Senior Advisor, Federal Office for the Environment (FOEN))

As a country committed to an open and inclusive trade policy, it was mentioned that Switzerland consistently favours internationally coordinated approaches because it believes

that global challenges should primarily be tackled through international approaches. However, due to blockages at the multilateral level, plurilateral approaches and unilateral measures taken by other actors are shaping the current trade policy landscape in order to advance discussions on this topic.

3a. Pathways to foster international cooperation on sustainable trade and sustainable development

One key approach identified by participants to improve global cooperation on the trade-sustainability nexus is to increase transparency efforts, by informing other countries of upcoming trade-related climate measures as early as possible and, where possible, by discussing such measures in multilateral fora.

Efforts to share lessons learned and best practices are another important aspect of facilitating international cooperation on sustainable trade. In this regard, recognising the role of the private sector was considered key, as it tends to implement new methods faster than the public sector and has a better sense of what is happening "on the ground", where people are directly affected. Furthermore, there was general agreement that the challenges faced by developing and least developed countries due to the introduction of trade-related climate measures should not be underestimated. Providing technical assistance as part of sustainable trade initiatives was highlighted to be crucial to support their capacity-building efforts.

On the other hand, views differed as to whether unilateral measures could trigger multilateral progress or rather exacerbate existing deadlocks. The example of the EU's Carbon Border Adjustment Mechanism (CBAM) illustrates the complexity of balancing a liberal trade regime with ambitious sustainability commitments. The regulation and its planned implementation received mixed reactions from participants, with some perceiving the measure as a potential way forward to address "carbon leakage", while others expressed reservations about its unilateral nature and its impact on the developing countries, thereby further exacerbating the current lack of capacity-building support for developing and least developed countries to enable their participation in international markets, including carbon markets.

3b. Unilateral versus multilateral measures: compatibility of environmental approaches and measures with the multilateral trading system and their effectiveness

The debate on the compatibility of unilateral measures with the multilateral trading system was seen as closely linked to the deadlock at the multilateral level, and in particular to the WTO dispute settlement mechanism. Some participants therefore saw the rise of unilateral approaches by some WTO members as being not only as symptom of the paralysis of the multilateral trading system, but also as an important factor in the further exacerbating a weakening of global trading norms. Others view unilateral measures as the only way to move the debate forward and, ultimately, to generate momentum at the multilateral level. Questions were also raised about the compatibility of unilateral measures with WTO law, in particular the existing exceptions.

Moreover, it was highlighted that little progress has been made in recent years on sustainability objectives in WTO covered agreements in the past years, with the exception of the WTO Fisheries Agreement, which took several years to conclude. Given this limitation, soft law instruments, which tend to be discussed at the plurilateral level, are increasingly recognised as useful tools for providing policy guidance and laying the groundwork for possible future binding agreements.

In the discussions, the effectiveness of unilateral measures to achieve environmental goals was deemed controversial. This discussion also led to the issue of subsidies and their impact on the environment. In this context, some participants expressed concern that new policy developments that could be considered as unilateral measures, such as the adoption by the US of the Inflation Reduction Act (IRA), could trigger a subsidy race with adverse effects on the multilateral trading system.

Finally, some participants argued that the compatibility of unilateral measures with the normative framework of international trade ultimately depends on their implementation as well as accompanying transparency and impact assessment efforts.

3c. Plurilateral approaches as another way forward?

Discussions turned to the perception of plurilateral approaches, such as the three plurilateral initiatives on trade and sustainability in the WTO¹, emerging “climate clubs” or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), as a means of bypassing multilateral blockages, particularly in the WTO. In general, there was a broad agreement that plurilateral approaches are at best second-best option, and that multilateral approaches remain the best way forward whenever possible.

However, views differed on the merits of plurilateralism. The optimistic view of plurilateral initiatives was that they have the advantage of speed, inclusiveness (with the possibility of being open to new members at a later stage) and the ability to test different formats. This allows for the establishment of standards that could later be adopted at the multilateral level. The cautious view warned against the risk of a “two-speed” track, the dilution of effort and ambition as countries pick and choose commitments, and the undermining of inclusiveness. Not surprisingly, the discussions emphasised the importance of ensuring that plurilateral initiatives are inclusive, transparent, compatible with international trade law and development-friendly.

The decisive role of world powers in driving plurilateral initiatives was also highlighted, with the associated risks of exclusion and fragmentation of world trade into different spheres of influence.

In sum, there is no consensus yet on the overall impact of increasing plurilateral initiatives on the global trading system. It has been noted that they tend to intensify and change the

¹ Trade and Environmental Sustainability Structured Discussions (TESSD), Dialogue on Plastics Pollution and Environmentally Sustainable Plastics Trade (DPP), Fossil Fuel Subsidy Reform (FFSR)

dynamics of the discussions. At the WTO, it was highlighted that they have given a positive impetus to the discussions on trade and environment.

The roundtable concluded after two insightful half-day sessions. Overall, the roundtable enabled stakeholders and civil society to be informed about the latest developments in the field of trade and sustainable development, while ensuring a relevant and constructive dialogue in this field.

4. Further references

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