Issues Note

Trade and Climate: Cooperation on the Path to Net Zero

Tellingly, facilitating open and fair trade is the fourth pillar of the **Green Deal Industrial Plan for the Net-Zero Age**, which combines the aims of competitiveness and the transition to climate neutrality. Domestic policy-making is essential to deliver on the Paris Agreement commitments. The question is how we design policies while ensuring their WTO compatibility and minimising negative spill-over effects. The EU strives to ensure trade policy helps promote sustainable development through trade agreements, special incentives for developing countries, and trade and development policy. Trade agreements are an important driver for sustainable growth both in the EU and in partner countries. Modern EU trade agreements contain rules on trade and sustainable development.

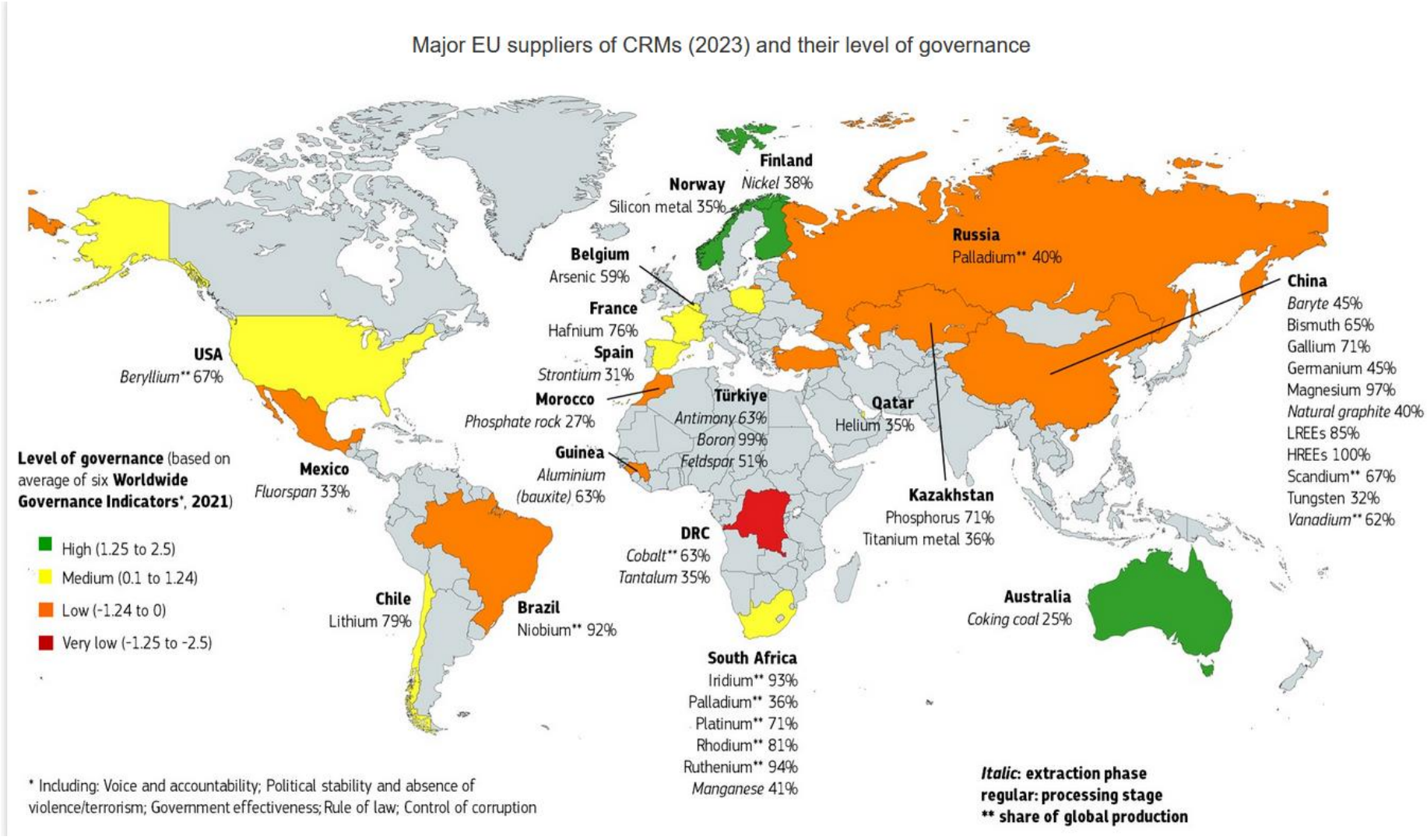
The EU's trade agenda also needs to take into account resources as per the Critical Raw Materials Act. For instance, the EU currently imports 24 % of its critical raw materials from preferential trading partners; rising to 46 % once a free trade agreement with Australia is in place. Chile is the EU's largest import source for refined lithium, the modernisation of the agreement is expected to enhance sourcing of this key resource.

In order to make trade work for the green transition, Europe needs to cooperate globally. This means engaging with partners either bilaterally or in multilateral institutions, but may also entail taking unilateral measures where necessary. To illustrate, the World Trade Organization (WTO) faces significant challenges, but it provides an agreed common framework for open trade, ensuring transparency and predictability and safeguarding the international level playing field. The Carbon Border Adjustment Mechanism (CBAM) aims to put a fair price on the carbon emitted during the production of carbon intensive goods and thus encourages cleaner industrial production. Under the political agreement to introduce a CBAM in the EU, the scheme will enter into force in its transitional phase as of 1 October 2023. It will initially apply to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage: cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen.

Questions for discussion

1. *How can we fight climate change without compromising on the principles of fair competition and open trade? How can trade policy and international partnerships strengthen European competitiveness and the green transitions?*

2. *What role do the World Trade Organization, bilateral trade agreements and initiatives like the Carbon Border Adjustment Mechanism play?*



Source: European Commission (2023)