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7 Actions for the G7 to Advance Climate-Aligned Trade

CCAT CONSORTIUM CONSENSUS RECOMMENDATIONS

Acknowledgements

These recommendations are issued by the Consortium for Climate-Aligned Trade. CCAT is an informal coalition of leading researchers and think tanks in G7 jurisdictions. These researchers and think tanks bring extensive expertise in climate and trade policies. CCAT members understand that meeting global climate goals will depend in significant part on whether trade policy helps rapidly decarbonize energy intensive industrial sectors, such as steel, aluminum, chemicals, fertilizers, and cement. Climate Advisers serves as the secretariat of CCAT. Learn more here: www.climatealignedtrade.org.

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Introduction

More diplomatic dialogue is urgently needed, including during this year's G7 process, to accelerate industry transformation and reduce carbon leakage. While there are other relevant forums, the G7 offers an important opportunity for like-minded major economies to find common ground on how best to harness trade policies to support climate action.

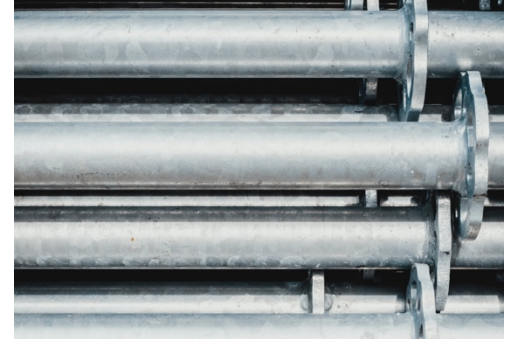
To help jumpstart the process, here are seven consensus policy recommendations developed by Consortium for Climate-Aligned Trade (CCAT) members for G7 leaders and ministers to include in the communiqués that they will issue this Spring. These ideas are offered as first principles that take into account the current political trends and realities. G7 action along these lines would help several of the world's largest economies and closest partners to articulate a framework upon which they can build, while also providing useful input to continuing global discussions beyond the G7.



More diplomatic dialogue is urgently needed, including during this year's G7 process, to accelerate industry transformation and reduce carbon leakage.

Recommendations

Here are seven policy recommendations for G7 leaders and ministers to include in the communiqués they issue this Spring.



01

Reaffirm G7 commitment to decarbonize industrial sectors and agree to meet the Paris Agreement timeframe.

All G7 members already have pledged to reach net zero GHG emissions by midcentury. Achieving this goal will require rapid and deep decarbonization of their entire economies, including energy intensive industrial sectors. In 2021, G7 leaders pledged to take action to decarbonize their industrial sectors and launched the Industrial Decarbonization Agenda (IDA) to promote cooperation. In 2022, G7 leaders pledged to work toward the creation of a climate club, the mandate for which includes industrial decarbonization. Now, G7 leaders should clarify that industrial decarbonization will occur fast enough to contribute to limiting global warming to well below 2 degrees Celsius, and preferably no more than 1.5 degrees Celsius.

02

Elevate reducing emissions intensity of traded goods as the primary focus of climate-aligned trade policies.

To achieve rapid GHG emission reductions, efforts to decarbonize the industrial sector should be aimed first and foremost at reducing the emissions attributable to goods, including those that are traded. The Climate, Energy, and Environment ministers agreed in 2022 on the importance of reducing emissions intensity. While that was a positive step forward, they have not made reducing intensity the main focus of climate-related trade policy. Moreover, G7 leaders have never talked about how reducing carbon intensity is vital in aligning climate and trade policies. This year's G7 summit provides the opportunity to rectify these omissions. Doing so would help focus policymaking attention on measuring, reporting, and verifying improvements in emissions intensity, even as G7 members continue to pursue somewhat different mixes of climate policies.

03

Affirm that climate-related trade policies can be useful and appropriate policy tools for tackling the climate crisis.¹

Such policies can include carbon border adjustment mechanisms, subsidies for climate-friendly technologies, green procurement and more. These climate-related trade policies are legitimate ways for members to advance climate goals.² The G7 has never communicated this important principle and it should do so this year.

04

Set a time-bound goal to create a mutually supportive and rules-based framework well before 2030 for aligning climate-related trade policies.

As a first step, G7 members should agree to work with coalitions on a bottoms-up, global approach. Decarbonizing the industrial sectors will become more difficult, if not impossible, if nations are reluctant to adopt strong climate policies because they fear carbon leakage. Similarly, the adoption of conflicting and contentious climate-related trade policies could result in trade conflicts that reduce climate ambition by chilling trade in environmental goods and services. To avoid these negative outcomes and develop international consensus on how best to align trade with climate goals, the G7 should set a time-based goal for developing and agreeing to a common framework for aligning trade and climate policies.

Building on existing national, regional, and international approaches, a goal should be to make respective national and regional systems interoperable and compatible. Differences with other trading partners should not stop the G7 from reaching agreement before 2030, especially if a more inclusive approach is not possible within that timeframe. At the same time, G7 members should strive to include nations outside the G7 in articulating a shared framework.

05

Pledge to strive to find common ground and reduce trade tensions when managing differences on climate-related trade policies.

While the G7 works to create a shared framework for climate-related trade policies, G7 members should avoid trade tensions by striving to overcome differences through dialogue whenever possible. This includes agreeing on interim principles for subsidies, border adjustments and green public procurement. Even when differences remain, G7 members should make every effort to avoid escalating trade disputes or seeking international review. Trade confrontations risk slowing climate action and undermining many other shared G7 interests.

¹ These policies should be in accordance with international rules. G7 should work toward common understanding of principles in the interim, and a mutually supportive global framework in the years to follow.

² For these purposes, the phrase 'climate-related trade policies' refers to any policy where trade and climate interests are intertwined.

06

Agree to work together to expand trade in climate-friendly goods and services in ways that help create resilient and secure supply chains.

The world needs to raise climate ambition, including by increasing trade in environmental goods and services. The world also needs secure and resilient supply chains to ensure that natural disasters, future pandemics, and geopolitical disputes do not slow the rapid transition to a clean economy. Trade that does both – increasing the availability of clean goods and services while also improving supply chain resilience and security – is needed most of all. G7 members should commit to work together and with others whenever possible to advance these common goals.

07

Commit to work together on data and technical issues, both directly and via international institutions.

Specifically, the G7 should pledge to:

- Improve data transparency, availability, and quality.
- Better align national definitions for categories of goods and methods for calculating emissions intensity in goods.
- Work toward creating interoperable approaches through trade policies to reduce embodied carbon in traded goods.

G7 members should agree on the importance of developing facility-level and goods-specific data as soon as possible, particularly for industrial sectors. Greater technical cooperation and coordination would create the transparency needed for free trade. With discussion of data underway in several forums, G7 affirmation of the importance of this work, as well as the need for stepped-up assistance from international organizations, would help speed up progress.



Illustrative Communiqué Text

LEADERS

To assist G7 members in implementing these policy recommendations, CCAT has developed suggested language to include in 2023 G7 communiqués. For example, the G7 leader’s communiqué could contain a paragraph along these lines:

In our industrial sectors, we will take action to decarbonize areas such as iron and steel, aluminum, cement, chemicals and fertilizers, in order to reach net zero GHG emissions across the whole economy in line with the goals of the Paris Agreement.³ This will require rapid reductions of embodied emissions in internationally traded goods.⁴ Measures to accelerate the clean economy and combat carbon leakage – including carbon border measures, subsidies, and green procurement – can play a useful and appropriate role in advancing climate action.⁵ ⁶ We will work to create a mutually supportive and rules-based approach well before 2030 to aligning our respective climate-related trade policies. We will work toward a global approach, and as a first step, we will work to find common ground among like-minded nations, including across the G7.⁷ In the meantime, we will strive to minimize differences, make every effort to reduce trade tensions, and respect climate policies. We will work to expand trade in environmental goods and services with a view to building secure and resilient supply chains.



MINISTERS

The Climate, Energy, and Environment ministers meeting in April can also adopt similar language. In addition, the ministers could go further by elaborating on a few important technical points, as follows:

Climate-related trade policies should be transparent, fair, and data-driven.⁸ To create greater transparency and alignment, we will increase the public availability of non-proprietary domestic and regional data on the embodied emissions in traded goods. We agree that to ensure a just energy transition, climate-related trade policies must help developing nations to shift resources to clean solutions that advance sustainable development. We agree on the importance of developing firm-level and goods-specific data as soon as possible, particularly for the industrial sectors. We will work together to develop common definitions for different categories of goods and aligned methods for calculating emissions intensity, building on existing national, regional, and international efforts. We request that international organizations continue to support technical dialogue and data gathering.

³ This sentence builds on a similar sentence in the 2021 G7 Leaders’ communiqué. Reference to Paris Agreement is new.

⁴ This sentence places the focus appropriately on the embedded carbon of traded goods.

⁵ This builds on the 2022 G7 leaders’ text on climate clubs, which identified carbon leakage as a risk to emissions mitigation efforts.

⁶ These policies should be in accordance with international rules. G7 should work toward common understanding of principles in the interim, and a mutually supportive global framework in the years to follow.

⁷ This is implicit in 2022 G7 statement on a climate club but in this context would not be limited to a climate club.

⁸ The policies should also be in line with international rules, including on trade and labor.

