Background Reading Pack

Citizens' Assembly on Trade and Climate

Introduction

Welcome to the UK Citizen's Assembly on Trade and Climate. This section of the Welcome Pack contains three background readings.

The readings were selected to be introductory and to give a range of views. Because of the nature of the topic there will be some terminology that may be unfamiliar. Please do not be put off by that, either look it up online or simply carry on reading. We suggest taking notes on this paper copy as this can help to better absorb information .

You will not be 'tested' on any of this. The relationship between trade and climate is a very new field and we are all learning together.

The three readings in this pack were selected to give a range of views. They were also edited slightly to remove unnecessary detail or to add important points. The readings are as follows:

1. "What is Trade? Information Sheet". Using materials from the 2017 Citizens' Assembly on Brexit
2. "Factsheet: Trade", by CAFOD, 2018
3. "How does trade contribute to climate change and how can it advance climate action?", by Danae Kyriakopoulou with Georgina Kyriacou and Natalie Pearson, LSE Blog, 2023

Citizens' Assembly on Trade and Climate

What is Trade?

Information Sheet

What is Trade?

Trade is the buying and selling of products between countries.

These products can be goods, such as food and electrical products, or services, such as education and banking.

People and companies in the UK often trade with people and companies in other countries. For example, you might own a German washing machine. A Polish company might ask a British firm to design its website. Someone in Britain might buy vegetables from Spain.

Trade goes in two directions. Movements of goods and services out of a country are exports. Movements into a country are imports.

Why do Countries Trade?

Countries trade for several reasons.

One reason is that some goods or services can be produced more efficiently in one country than in another. For example, the UK imports tropical fruit because it's easier to grow such fruit in a hotter climate. The UK exports financial services because it has built up a lot of expertise in this area. Countries will generally specialise in producing those goods and services that they can produce most efficiently.

Another reason for trade is that it increases choice and competition. For example, the UK makes and exports cars, but it also imports cars from other countries. If we could only buy the cars that are made in the UK, there would be less choice and prices would probably be higher.

Is Trade Always a Good Thing?

Trade can increase wealth and living standards in all countries involved. It allows a country to obtain goods and services that it can't produce itself as efficiently. It increases choice and reduces prices.

But trade can also have disadvantages:

- It can be harmful for some people. For example, people working in particular industries can lose their jobs if it becomes more efficient to produce these goods in other countries.
- It can encourage a 'race to the bottom'. For example, countries might weaken protections for workers or for the environment so that they can compete more effectively against other countries with higher standards (and hence higher costs).

What Are Trade Barriers?

Many things can limit the free flow of goods and services between countries. These limits are called trade barriers. Tariffs and non-tariff barriers are the most common.

- **Tariffs** are taxes on imported goods and services. They restrict trade by increasing the price of imports, making them more expensive to consumers.
- **Non-tariff barriers** are regulations, public standards and processes that make trade more complicated. For example, if each country requires medicines to be licensed by its own regulator, drugs companies have to go

through the licensing process in each country in which they trade.

Similarly, if each country requires providers of financial services to be based locally, banks have to establish offices in different countries. If each country has its own safety standards for cars or electrical products, then companies trading internationally have to create products that fit different standards in different places. Customs checks on borders also create non-tariff barriers because of the time that is lost going through them.

What Are Trade Agreements?

Trade agreements are a way for countries to coordinate with each other to get the most favourable terms of trade. Some trade agreements go further than others:

- All trade agreements seek to reduce or eliminate tariffs on imports and exports between the countries that sign up to the deal.
- Some trade agreements try to go further and reduce non-tariff barriers as well. They might create 'mutual recognition' arrangements, where goods and services licensed in one country are also accepted in another. Or they might try to 'harmonise' their product standards in certain areas, so that different countries follow the same standards to reduce non-tariff barriers.

All trade agreements require governments to give up control over some areas of policy in return for the prospect of increasing trade. Limited trade agreements require this just on tariffs. More detailed trade agreements involve agreement on other aspects of policy in order to reduce non-tariff barriers.

While trade agreements do increase trade, some people worry that they can harm things like animal welfare standards or food safety standards, or that they can downplay the importance of globally-important issues like greenhouse gas emissions and climate change. While trade agreements create new jobs, they can also undermine some existing jobs where foreign competition is strong.

https://www.qmul.ac.uk/trade-climate-assembly/

Source: This summary was adapted from materials used in the Citizens' Assembly on Brexit

Citizens' Assembly on Trade and Climate

TRADE JUSTICE MOVEMENT

Queen Mary University of London

CAFOD Just one world

factsheet

Trade

Coffee farmers around the world face very unreliable prices for their crops.

What is trade?

When we buy a DVD or a bar of chocolate, or use a service like the internet, we are 'trading': swapping money for goods. Workers produce goods and services. Companies pay workers and sell their products. Countries encourage companies to set up; companies create jobs, generate taxes and earn foreign currency. Consumers – that's us – buy the product or the service.

Who sells what?

Some developing countries, particularly in Asia, are major manufacturers. Others sell commodities, like cotton, cocoa, or copper. For most it's a mix: Brazil sells aircraft but is still the world's largest coffee producer.

Selling raw materials

Countries that produce only raw materials and commodities are at a disadvantage:

- They lose out on processing. If countries which grow cocoa beans made them into chocolate, they'd make more profit.
- The price of raw materials and commodities changes fast, making it hard to plan. The prices are often very low.

Selling manufactured goods

Factories and industry mean jobs, but there are downsides:

- Although costs are lower in developing countries, it can be hard for them to move up to making manufactured goods like cars. They may have raw materials, but not technology or infrastructure. Established industries in richer countries have a huge lead.
- Jobs may not be secure. Companies will fail if they cannot offer the quality and price that international buyers want.
- Producing products for cheap prices often means poor health and safety and low wages for workers.

But we in the rich world go on wanting ever more things to buy, at ever lower prices. This has a terrible impact on poorer countries and our planet. As Pope Francis has often said, we can't go on like this.

TRY THIS **Look at the labels in your clothes. Decide why you think the clothes were made in these countries. OR Choose a product and draw a diagram of how you think trade works for this product.**

Trade rules – unfair for some

International trade has the potential to lift millions of people out of poverty, but the rules are stacked in favour of rich companies and countries.

Tariffs

These are taxes on goods one country buys from another. High tariffs can be used to protect producers at home from foreign competition. Developing countries want to raise their tariffs because they can't compete with manufacturers and farmers in more advanced countries. Global trade rules prevent them from doing this.

The UK and other rich countries protected their own industries from foreign competition when they were building up, but now won't let poor countries do the same. They flood developing economies with their own subsidised goods at prices that locals can't hope to match, a tactic known as 'dumping'.

There are other non-tariff barriers like quality and food safety controls which are very strict, and can be difficult for producers in developing countries to achieve.

FACT

WHILE INTERNATIONAL TRADE IS WORTH $17 TRILLION A YEAR (2017), THE POOREST COUNTRIES ACCOUNT FOR LESS THAN 1% OF THIS. (WTO)

The power of multinationals

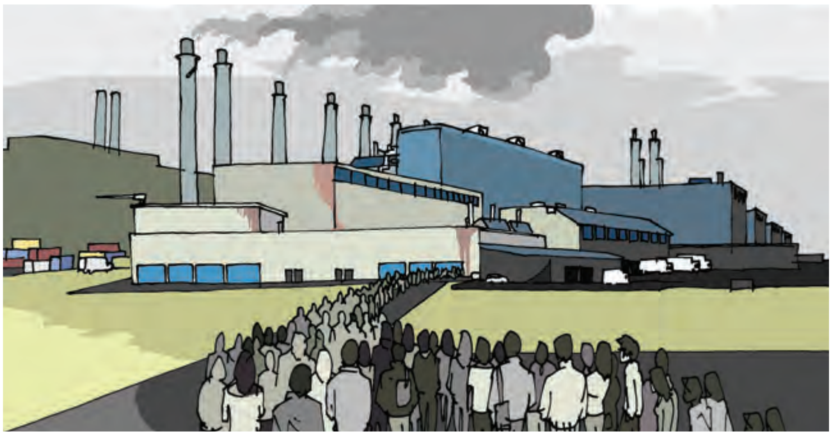
World trade is dominated by multinational enterprises (MNEs), large companies active across many countries. UNCTAD estimates that up to 80 per cent of global trade involves MNEs.

Their sheer size gives them huge power to influence governments to make trade rules favourable for them. Governments may oblige, keen to encourage companies to invest in their countries. MNEs often find ways to pay very low taxes, and may bend rules on workers' rights or environmental protection.

FACT

VALUED AT $1 TRILLION IN 2018, APPLE WAS WORTH 1.25% OF THE ENTIRE WORLD'S ECONOMIC OUTPUT.

Trade rules and climate change



Faced with climate change, in 2015 world leaders signed a new agreement to limit greenhouse gas emissions. This means radically changing the kinds of energy we use. Frustratingly, trade agreements contain rules which can actually restrict countries from doing this.

Under current rules that protect investors, companies investing in say, oil or gas, can sue governments who pass new laws that harm their profits – for example, policies favouring greener energy. The world urgently needs to redesign trade and investment rules to help reach our climate goals.

Global goals to end poverty

In 2015 world leaders agreed 17 steps to end world poverty and protect the planet. These are the Sustainable Development Goals, or SDGs *(see SDG factsheet)*. Helping poorer countries benefit more from global trade is a key theme across many goals, since trade can tackle poverty and promote long-term development. However, it can also add to consumption and increase climate change. The following goals all mention ways in which a fairer trading system can help poorer countries to grow:

SDG 2: Zero hunger
SDG 3: Good health and well-being
SDG 8: Decent work and economic growth
SDG 10: Reduced inequalities
SDG 14: Life below water
SDG 17: Partnership for the goals, contains a section on trade, with a promise to create a fair and universal trading system under the World Trade Organisation (WTO).

Abridged for UK Trade and Climate Change Assembly by Liam Campling
Sources: Fairtrade Foundation; Trade Justice Movement; UNCTAD; WTO. Illustrations: Dylan Gibson. Facts compiled. October 2018. Charity no 1160384 and a company limited by guarantee no 09387398.

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How does trade contribute to climate change and how can it advance climate action?

12 June, 2023

[abridged]

Trade is a significant generator of greenhouse gas emissions but it can also be harnessed to help reduce the cost of climate change mitigation and speed up the low-carbon transition. One aspect of this is to focus on reducing emissions from trade itself, notably the associated transport systems; but also, trade can facilitate the exchange of environmental goods and clean technologies such as renewables. At the same time, it is important to understand how climate policy affects trade and what further international cooperation and standards will be critical to ensure that trade is a positive, not a negative, influence on climate change action.

Why is it important to reduce emissions from trade and how can this be achieved?

Around 20–30% of global CO_2 emissions are associated with international trade and therefore it is important to reduce these emissions as part of wider efforts to mitigate climate change. The impacts of climate change also pose significant physical risks to trade and mitigating climate change is the best way to avoid these worsening significantly. Some of the risks can be managed in part by diversifying supply chains and building buffer stocks (for example, a company could source raw materials whose production can be affected by extreme weather from more than one region to spread the risk), but these strategies have their limits. Furthermore, such strategies would involve compromising on the fundamental building blocks of the modern trade system, whereby countries tend to specialise in economic sectors in which they have some comparative advantage and try to benefit from economies of scale and the optimisation of global value chains. Therefore, reaching global net zero and limiting temperature rise to well below 2°C, the goal of the Paris Agreement, is the most effective and sustainable strategy for protecting the global trade system.

Globalisation and the fragmentation of production processes have been important contributors to rising emissions due to increases in the transportation and disposal of goods as part of complex global value chains. More than 75% of the emissions embedded in international trade come from just a few sectors, including energy and transport. [...]

Reducing the transport emissions associated with trade has added benefits for human health, as the transport sector is the biggest contributor globally to the most harmful fine particulate pollution. This form of air pollution is strongly linked to heart, brain, respiratory and lung diseases and many forms of cancer.

The large-scale availability of low-carbon transport will take time to achieve, especially in shipping and aviation. In the meantime as a complementary policy, efforts can be made to reduce the physical distances covered in the name of international trade through a focus on local and resilient production methods and the circular economy (in which there is more local reuse and recycling).

How can trade be used to advance decarbonisation of the global economy?

Trade itself can accelerate the diffusion, dissemination and deployment of clean technologies and low-carbon goods and services. By providing opportunities for economies of scale, efficiency improvements and access to the skills and knowledge, trade can be instrumental for creating and enhancing incentives for innovation in clean technologies and can support such innovations to be affordable and directed to where they are most needed – for instance, to manufacturing sectors in developing countries.

The solar energy industry demonstrates how international trade can accelerate the investment and innovation needed to deliver the low-carbon transition. Over the last decade, the deployment of solar photovoltaics has hugely increased while costs have significantly fallen. This is in large part thanks to global value chains that have made the industry more efficient by spreading the production of inputs (such as the silicon solar cells). [However, it is important to stress that solar panel supply chains are currently highly concentrated in China]. ... Breakthroughs in energy storage and transmission are now needed to facilitate the trade of solar and other renewable energy across countries and thus respond to the varying levels of energy supply and demand caused by the uneven nature of access to sunlight and wind.

This Explainer was written by Danae Kyriakopoulou with Georgina Kyriacou and Natalie Pearson.

[**Abridged for UK Trade and Climate Change Assembly by Liam Campling**]

https://www.lse.ac.uk/granthaminstitute/explainers/how-does-trade-contribute-to-climate-change-and-how-can-it-advance-climate-action/#:~:text=Trade%20is%20a%20significant%20generator,up%20the%20low%2Dcarbon%20transition.