A CLIMATE ADVISERS CONTRIBUTION TO CCAT
APRIL 2023

The G7’S Role In Utilizing Trade Policies For Climate Goals

EMBARGOED DRAFT - NOT FOR DISTRIBUTION
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>04</td>
</tr>
<tr>
<td>Why Climate-Aligned Trade Matters</td>
<td>06</td>
</tr>
<tr>
<td>Diverse Action but No Consensus</td>
<td>09</td>
</tr>
<tr>
<td>Political Drivers</td>
<td>14</td>
</tr>
<tr>
<td>Policy Recommendations for G7 Leadership</td>
<td>17</td>
</tr>
<tr>
<td>Illustrative Communique Text</td>
<td>21</td>
</tr>
<tr>
<td>Conclusion</td>
<td>22</td>
</tr>
</tbody>
</table>
Acknowledgements

This report was prepared by Climate Advisers in its capacity as the secretariat to the Consortium on Climate-Aligned Trade (CCAT). 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. The views expressed herein are those of Climate Advisers and may not reflect the views of all CCAT members. Learn more here: www.climatealignedtrade.org.
Success in 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-aligned trade rules are needed to accelerate climate solutions in these sectors by promoting innovation, reducing costs, and stimulating demand for clean goods. Smart climate and trade policies are essential to increase climate ambition while minimizing “carbon leakage,” which shifts greenhouse gas (GHG) emissions from one country to another by moving manufacturing from countries with ambitious climate policies to countries where policies are less stringent. Carbon leakage undermines the effectiveness of climate policies, distorts trade, and harms companies, workers and communities.

More diplomatic dialogue is urgently needed to accelerate clean energy markets and reduce carbon leakage. While there are other relevant international forums, the G7 offers an important opportunity for like-minded, trade-oriented major economies to find common ground on how best to harness trade policies to support climate action.

Climate-aligned trade rules are needed to accelerate climate solutions in these sectors by promoting innovation, reducing costs, and stimulating demand for clean goods.
To facilitate progress, the Consortium for Climate Aligned Trade (CCAT) developed seven environmentally sound, economically sensible, and politically realistic policy recommendations for the upcoming 2023 G7 process hosted by Japan. CCAT recommends that G7 members include these seven policy statements in the communiqués that G7 leaders and ministers issue this Spring.¹

These policy statements help structure additional cooperation across the G7 on climate-aligned trade, while also providing useful input to regional and global forums working on similar issues. This brief also provides illustrative communiqué text to demonstrate how G7 governments could adopt the recommendations using straightforward, concise language.

This paper analyzes:
- The importance of aligning climate and trade policies
- Notable global forums, as well as national and regional initiatives working on climate and trade policies
- The current political context among G7 members
- Policy recommendations for G7 leadership on climate and trade

¹ G7 Climate, Energy and Environment ministers will meet in Sapporo, Japan, on April 15-16, 2023. G7 Leaders will meet in Hiroshima, Japan, on May 19-21, 2023. Following each meeting, G7 members are expected to issue communiqués summarizing points of agreement.
Why Climate-Aligned Trade Matters

G7 members and their leaders have focused significant attention on the importance of reducing emissions associated with international trade, particularly in the industrial sectors. Embodied emissions in trade – the emissions associated with the production, storage, and shipment of traded goods – make up about 25 percent of all global emissions. This section explains the importance of aligning trade and climate policies, beginning with the industrial economy.

RAISING CLIMATE AMBITION

To meet the goals of the Paris Agreement and keep global warming from permanently exceeding 1.5°C, the international community needs to decarbonize the global economy quickly, according to recent global scientific reports. Considering the urgency of climate action and the fact that the embodied emissions of global trade represents one quarter of the world’s emissions, the international community needs to use all reasonable policy tools, including those relating to trade policy, to decarbonize traded goods. Specifically, nations need to work internally and together to promote trade in green goods that embody few emissions, while discouraging trade in comparatively carbon intensive versions of those goods.

3 See the latest report from the Intergovernmental Panel on Climate Change (IPCC), https://www.ipcc.ch/report/ar6/syr/
The international community needs to use all reasonable policy tools, including those relating to trade policy, to decarbonize traded goods.
DECARBONIZING HEAVY INDUSTRY

Aligning trade policy with climate goals is particularly important for reducing emissions in energy intensive industrial sectors that produce internationally traded materials and commodities, such as cement, aluminum, chemicals, hydrogen, fertilizer, and steel. Industry accounts for slightly more than 30 percent – or nearly a third – of global greenhouse gas (GHG) emissions. Though industrial sectors have adopted increased energy efficiency, new processes and technologies, more efficient use of resources, and lower-emission fuels, decarbonizing major industries remains challenging. To achieve deep decarbonization on a global scale, tighter collaboration among major economies is needed.

AVOIDING CARBON LEAKAGE

Many countries have been concerned that climate action could harm their competitiveness and lead to the offshoring of manufacturing and the loss of industrial jobs. Carbon leakage risk gets in the way of increasing climate ambition while also leading to numerous uncoordinated approaches that hamper effectiveness. The main reasons to pursue climate-aligned trade are to avoid carbon leakage and to harmonize approaches to policies that reduce carbon leakage. Carbon leakage harms the economy and communities by shifting production to economies with less stringent climate policies and undermines the effectiveness of climate policies in nations with the most stringent climate targets.

‘PRIMING THE PUMP’

While avoiding carbon leakage is important, it’s not the only area where climate policies intersect with the global trade agenda. Green subsidies and green procurement rules, for example, can help create incentives to develop and advance low emission goods and environmentally friendly technologies. These policies can “prime the pump” and grow clean energy economies. Well-designed policies can stimulate and expand clean energy economies. However, trade tensions may arise due to the uneven fiscal capabilities among nations, or when countries view subsidies and environmental standards as concealed protectionism or a breach of international trade rules. Moreover, other countries with limited financial resources may not be able to replicate such policies, complicating efforts to ensure a just global transition to the clean economy. In theory, existing trade rules allow for well-designed climate policies, but nations have different interpretations of what those rules allow or require. Also, the rise of populist politics and the erosion of respect for international trade rules have made resolving these differences more difficult. All these factors contribute to the risk of international political discord at the intersection of climate and trade policies.

Though industrial sectors have adopted increased energy efficiency, new processes and technologies, more efficient use of resources, and lower-emission fuels, decarbonizing major industries remains challenging. To achieve deep decarbonization on a global scale, tighter collaboration among major economies is needed.

---

Diverse Action but No Consensus

Efforts to better align climate and trade policies need to consider ongoing work at the global, regional, and national level. This section highlights some of the most notable global forums, as well as national and regional initiatives that are important to aligning climate and trade policies.

GLOBAL FORUMS

Global discussion on how best to align trade and climate policies has yet to produce a workable policy framework that can be implemented. Little progress has been made in the World Trade Organization (WTO) or United Nations (UN) in the context of global climate negotiations. Here is a summary of each effort.

World Trade Organization. With trade becoming a larger part of decarbonizing efforts by countries and international organizations, WTO rules and actions will become increasingly important to increase harmonization, prevent disputes, and assist emerging markets. The WTO is becoming more vocal about greater cooperation on data and standards, and hosted an event to discuss decarbonization standards for trade in the global steel market in March. “Proliferation and fragmentation of decarbonization standards poses challenges for climate and trade,” the WTO notes.

“In the steel sector, there are at least 20 different decarbonization standards and initiatives, which creates uncertainty for producers, increases transaction costs and risks trade frictions.” However, negotiations to liberalize trade in environmental goods and services in the WTO have not been successful despite years of effort. In the meantime, developing countries are becoming increasingly vocal on the need to address climate change. Moreover, the WTO’s dispute resolution system is temporarily broken, initially because of the Trump administration’s refusal to approve members to the WTO’s appellate body.

See here for WTO’s brief on Trade and Climate Change, [https://www.wto.org/english/tratop_e/envir_e/trade-climate-change_info_brief_no7_e.pdf](https://www.wto.org/english/tratop_e/envir_e/trade-climate-change_info_brief_no7_e.pdf)
United Nations Framework Convention on Climate Change (UNFCCC). Using trade measures to cut emissions has long been a contentious issue, dating back to when the UNFCCC first came into force in the early 1990s. Countries that negotiated the UNFCCC, particularly those in the developing world, were adamant that they did not want the fight against climate change to interfere with trade. Some believed that efforts to reduce emissions could undermine their country’s economic growth if trade were restricted.

The UNFCCC states in Article 3: “Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.” This ethos carried over into negotiations over the years, including the 1997 Kyoto Protocol and the 2015 Paris Agreement, neither of which emphasize trade policy solutions. In general, negotiations through the UNFCCC have been facilitatory instead of punitive, which has kept trade from being used to increase climate ambition.

On one hand, there are valid concerns among some countries – especially developing economies -- that certain trade-related climate policies could be exclusionary or discriminatory. Article 3 shields countries against that risk. On the other hand, Article 3 is also used – incorrectly at times -- to discredit climate-related trade policies that are neither exclusionary nor discriminatory. It is hard to find a middle way between these two poles. Because UNFCCC parties disagree strongly on the role trade policy should play in fighting climate change, like the WTO, the UNFCCC is not likely to reach agreement on a new policy framework anytime soon.
COUNTRY/REGIONAL INITIATIVES

A number of G7 members are taking action at home or with close partners to align trade policy with climate goals. The most notable include these initiatives:

**EU Carbon Border Adjustment Mechanism (CBAM):** Some G7 leaders see the importance of border measures in energy intensive, trade-exposed sectors. The EU argues that these border measures are necessary safeguards to avoid carbon leakage, which harms the economy, hurts companies and workers, and undermines the effectiveness of domestic climate policies. Border measures could be a G7 focus because the EU began implementing the EU CBAM earlier this year as part of its Fit for 55 in 2030 climate policy package, which is designed to comply with its law to reduce emissions by at least 55 percent by 2030.

As a carbon leakage tool, a CBAM aims to level the playing field for domestic and foreign producers by levying the same carbon price on domestic production as on imports. Supporters point to this equal treatment as proof the CBAM is not protectionist, although some countries and experts still perceive it that way. The EU CBAM will take effect in October 2023 but won’t be fully phased in until 2026. The CBAM will incentivize exporters to the EU to green their manufacturing for aluminum, cement, steel, electricity, and fertilizer, the sectors initially covered.

Even though some G7 members see this initiative as controversial because they believe it is inconsistent with international trade rules, the EU’s actions have ignited discussions on adopting similar mechanisms among G7 members such as Japan, Canada, the UK, and the United States, which are all considering their own versions of a CBAM. Some G7 members remain concerned about whether the CBAM would unfairly harm their own industries. For all these reasons, the G7 may seek to endorse CBAMs in principle.

**U.S. Inflation Reduction Act (IRA):** G7 leaders may seek an active discussion of green subsidies, which have become particularly contentious, in large part because of the Inflation Reduction Act (IRA). Passed by the U.S. Congress in 2022, the IRA places the United States on the path to cut emissions by nearly 50 percent by 2030. However, many countries, including other G7 members, have criticized several aspects of the IRA. One major concern is that the IRA limits government subsidies for electric vehicles and clean energy technologies to units that are assembled and sourced in the U.S. or, in limited circumstances, from certain other countries. Many argue that these domestic content requirements, are inconsistent with U.S. trade obligations, including those under the WTO. Domestic content requirements, U.S. lawmakers said, were necessary to gain majority support in Congress and are believed to be important to revitalize U.S. manufacturing.
To align trade and climate policies, G7 members will need to strive to adopt subsidy programs that avoid trade conflicts and deepen coordination on greening their economies.

By favoring U.S. companies, the IRA could continue to cause tension with U.S. partners, most notably the EU. Discussions to ease tensions with U.S. partners are underway. Critics will continue to urge the United States to revise the IRA so that it allows for exemptions with U.S. trading partners. Another G7 concern with the IRA, quite apart from domestic content issues, is that the green subsidies are so large that they may encourage companies in other G7 members to move production to the U.S. in order to benefit from the financial incentives. This raises the policy and legal question: Can climate subsidies be too large? To align trade and climate policies, G7 members will need to strive to adopt subsidy programs that avoid trade conflicts and deepen coordination on greening their economies. For all these reasons, the G7 may seek to endorse green subsidies in principle while also articulating some limits to ensure they are not viewed as disguised protectionism.

EU Green Deal Industrial Plan: The size of the IRA subsidies has caused the European Commission to propose changing its framework to make more money available for low-carbon investment to level the playing field with the United States. The European Commission has unveiled details about the proposed Net Zero Green Industrial Act, a policy response to the IRA that looks at strengthening Europe’s manufacturing ecosystem for net-zero technology products. Japan is also developing policies, such as green bonds, to ensure that Japanese companies can compete with American and European companies.

U.S.-EU steel and aluminum arrangements: Another topic expected to draw more attention among G7 leaders is the bilateral U.S.-EU discussion of a proposed global arrangement for green steel and aluminum. In October 2021, the U.S. and EU decided to resolve a trade dispute related to steel and aluminum tariffs that arose during the Trump administration. The U.S. agreed to provisionally lift tariffs on these commodities in exchange for the EU provisionally suspending retaliatory tariffs.

This agreement paved the way for the U.S. to trade larger amounts of steel and aluminum from the EU, significantly easing tensions between both sides. Just as crucially, the provisional agreement creates an opportunity for the partners to move forward with decarbonizing the transatlantic trade of steel and aluminum. Both sides have said they would like to stimulate clean steel production globally, while simultaneously protecting domestic producers from heavily subsidized products with high carbon intensity from other markets.
The two sides have a deadline of October 2023 to agree on how to address overcapacity of steel and create incentives for low-carbon output of steel and aluminum. Late in 2022, the Biden administration proposed to the EU to levy climate-based tariffs on China. The EU is skeptical that this action would be consistent with WTO rules and worries that it would be redundant because of its CBAM. To some, this arrangement shows the shortcomings of a bilateral approach, which may not be in the spirit of what is needed for true climate-aligned trade that scales and harmonizes global trade in low-carbon basic materials.

**Climate Clubs.** In 2022, the G7 endorsed the concept of a climate club, which was advanced by Germany in its role as G7 host. The G7 described the goals of the climate club as having three pillars: advancing emissions mitigation, transforming the industrial economy, and boosting international partnerships, including with respect to climate finance. The G7 described its approach to creating the climate club as open, cooperative, and inclusive. When Germany proposed the climate club initially, its aim was to form a group of countries, including the G7 plus major trading partners, to work toward a common carbon price floor and potentially a carbon border adjustment.

After the first draft of a “G7-level climate club,” a slightly different vision prevailed in the full G7 – namely an “open and cooperative climate forum” focused on “openness” and “inclusiveness” using an alliance-like format. This club would open its doors to all potential members willing to commit to accelerating their climate ambition, including developing countries. To advance this vision of a climate club, the G7 called for cooperation with international organizations such as the International Monetary Fund, the World Bank, the WTO, the International Energy Agency (IEA), and the Organisation for Economic Cooperation Development (OECD). It also implies the club would be willing to expand over time to involve as many countries as possible.

On behalf of the G7, Germany issued a roadmap for future work on the climate club, which consists of a secretariat co-hosted by the IEA and the OECD, with Chile and Germany as co-chairs. Some climate-aligned trade experts wonder whether the openness of the climate club might create risks of the same slow progress experienced in the UN and WTO.
Political Drivers

Although the international community is actively discussing the intersection of trade and climate policy in several forums and configurations, no broadly accepted policy framework has emerged. While more diplomatic dialogue is required, progress might prove easier if the international community initially seeks to establish sensible, pragmatic, and politically realistic principles. Future efforts to align trade policy with climate goals are more likely to succeed if they are in sync with today’s geopolitical zeitgeist. Before discussing what the core principles should be, the major global forces driving climate and trade policy must be considered. Here is a summary of the ideas and trends defining the current political and economic moment, particularly for G7 members.

Partial Loss of Faith in Global Trade. Twenty to thirty years ago, after the collapse of the Soviet Union and China’s turn from Maoist socialism to state-controlled capitalism, the international community embraced the idea that economic interdependence through international trade and highly interlocking supply chains would help guarantee global peace, security, and prosperity. Russia’s invasion of Ukraine, the economic consequences of pandemic lockdowns, and rising economic inequality in G7 members (which some attribute, rightly or wrongly, to international trade), have raised doubts that global interdependence is a key to progress. Now companies, labor unions, and policymakers are increasingly emphasizing the importance of economic resilience rather than global connectivity.
NEW POPULISM. Most G7 members, from Japan to the United States, have experienced stagnant wages and living standards, particular for middle- and lower-income families. This trend, together with the continued erosion of traditional social norms, has contributed to populism. Distrust of elites has called into question the value of international trade and climate agreements, along with the policymakers and business leaders who champion them at the United Nations, World Trade Organization, and the World Economic Forum. While not dominant in most G7 members, populism has undercut support for economic and national security policies that used to be broadly supported across the political spectrum. The importance of foreign alliances and a rules-based international trading system used to be taken for granted, but now those principles are challenged by increasingly vocal and influential populist movements.

RISING NATIONALISM. In many G7 members, populism is accompanied by rising nationalism. Whether in the form of Brexit or the America First movement, support for trade, climate cooperation, and other types of international policies and institutions is being undercut by the idea that progress requires focusing domestically and reducing foreign encumbrances such as investing in military spending in other countries and global economic cooperation. Although no country is immune from populist domestic pressures, populism is particularly strong in the United Kingdom, the United States, and in Italy, the G7 host in 2024.

COMMITMENT TO CLEAN ENERGY SECURITY. G7 members are united in their view that security and prosperity in the 21st century will depend largely on their ability to have a significant stake in clean energy technologies. Energy has always been essential to industrial economies. But while energy security in the last century meant securing access to affordable and abundant fossil fuels, energy security in the future requires ready access to the technologies and raw materials needed to run the green economy. Technologically, this includes semi-conductors, batteries, solar panels, wind turbines, electricity grid infrastructure, and electric vehicles. Manufacturing these technologies requires steel, aluminum, cement, lithium, copper, and many other inputs.
RETURN TO INDUSTRIAL POLICY. These trends have led to a reversal in globalization. Several decades ago, policymakers, business leaders, and other social forces believed that government-led efforts to direct the economy were likely to prove less effective at creating strong economies and good jobs than the innovations spurred by dynamic free markets. But today these same policymakers advocate for governments to adopt industrial policies to rebuild domestic manufacturing, limit dependence on single suppliers and nations that do not share G7 values, gain access to critical minerals, and redirect trade toward nations that are tackling climate change. To the extent that international trade remains in vogue, it is mostly in the context of “friend-shoring” or “ally-shoring”. For example, moving supply chains to trustworthy and stable nations that have resilient economies and share similar values.

CONCERN ABOUT INSUFFICIENT AND INEQUITABLE CLIMATE ACTION. G7 members are generally united in seeing climate change as a major threat. During most years, G7 leaders pledge to work together to strengthen domestic and international climate action. Yet, they are also highly attentive to the importance of coordinated and equitable climate action by industrialized and emerging economies. Since the G7 accounts for approximately only 25 percent of global greenhouse gas emissions, actions by G7 members alone will not solve the problem. G7 members understand that managing environmental and economic risks requires equitable action by all, or at least all major economies. Otherwise, factories could move to countries with weak climate policies, potentially resulting in carbon leakage, job losses among G7 members, and carbon lock-in in emerging economies – when continued fossil fuel development delays or prevents a transition to a low-carbon economy. Solutions are needed for these issues, especially in emerging economies. Leaders of G7 members have called for similar measures to create a level economic playing field and ensure the effectiveness of domestic climate policies.

Since the G7 accounts for approximately only 25 percent of global greenhouse gas emissions, actions by G7 members alone will not solve the problem. G7 members understand that managing environmental and economic risks requires equitable action by all, or at least all major economies.
Policy Recommendations for G7 Leadership

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 policy recommendations for G7 leaders and ministers to include in the communiqués they 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.

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.
Affirm that climate-related trade policies can be useful and appropriate policy tools for tackling the climate crisis. 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. The G7 has never communicated this important principle and it should do so this year.

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.

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.

---

7 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.
8 For these purposes, the phrase ‘climate-related trade policies’ refers to any policy where trade and climate interests are intertwined.
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.

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.
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. This will require rapid reductions of embodied emissions in internationally traded goods. 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. 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. 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.

Climate-related trade policies should be transparent, fair, and data-driven. 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.
Conclusion

Efforts to accelerate action to meet global climate goals will not succeed without harnessing the power of trade policy. Climate-aligned trade policies are needed to ensure that efforts to reduce emissions are environmentally impactful and economically sustainable. This is especially critical in trade-exposed industrial sectors that are vulnerable to carbon leakage and where policies to spur clean technology innovation and adoption are essential. Greater international coordination will prove vital in making national and regional approaches interoperable and minimizing trade conflicts. While fair and inclusive global solutions are needed and discussions should continue in existing global and regional forums, no consensus currently exists about how best to align climate and trade policies. The G7 should help lead the way by developing a shared policy framework to structure cooperation across its members and to provide useful input to global negotiations on these matters. Building on the CCAT policy recommendations, G7 leaders should set a goal to develop that framework well before 2030.
The G7’S Role In Utilizing Trade Policies For Climate Goals

APRIL 2023