UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

UN Conference on Sustainable Development Preparatory Process
Second Preparatory Meeting
New York, 7 – 8 March 2011

THE GREEN ECONOMY:

TRADE AND SUSTAINABLE DEVELOPMENT IMPLICATIONS

Report of the Ad Hoc Expert Meeting
Palais des Nations, Geneva, from 7 to 8 October 2010

Prepared by the UNCTAD Secretariat

Background Paper
Second Preparatory Committee Meeting /2011/BP1

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Introduction

1. The United Nations Conference on Sustainable Development (UNCSD), to be held in May 2012, has as one of its themes the green economy in the context of sustainable development and poverty eradication. At the UNCSD first Preparatory Committee Meeting, held in New York on 20 May 2010, this theme was extensively discussed. Many delegates expressed a desire to understand better the benefits, challenges and risks associated with a green economy transition (Chair's Summary, para. 76). Of particular interest to a wide range of countries was the trade and sustainable development implications of such transition.

2. Following the first UNCSD Preparatory Meeting, the Secretary-General of UNCTAD was invited to concretely contribute to the UNCSD process and to act as a focal point for trade aspects as it relates to the UNCSD agenda. As a result, it was decided that UNCTAD would lead a collaborative effort with the United Nations Department of Economic and Social Affairs (UN DESA) and the United Nations Environment Programme (UNEP) and convene an ad-hoc expert meeting on the trade implications of the green economy in the context of sustainable development and poverty eradication. UNCTAD further prepared a background paper on the interface between trade and sustainable development for the consideration of the experts. The meeting – *The Green Economy: Trade and Sustainable Development Implications* – was held on 7-8 October 2010 in Geneva, and drew a considerable number of participants from delegations, UN organizations and civil society.

3. The inputs that follow, designed to directly feed into the Secretary-General's Report to the 2nd Preparatory Committee Meeting for UNCSD, are drawn from the rich discussion that took place at the above-mentioned ad-hoc expert meeting. They are written on the responsibility of the UNCTAD secretariat, and while every care has been taken to ensure accurate reporting of the essence of that discussion, they should neither be interpreted as representing personal views of meeting participants nor of the institutions they represented.

II. How can a green economy contribute to sustainable development and poverty eradication?

4. The discussion in Geneva was generally positive, and tended toward the pragmatic. There was a general desire to understand better in what contexts and in what ways a green economy could play a significant role in helping achieve sustainable development and poverty eradication, and particularly through the channel of economic growth, trade and investment. There was also a desire to understand better in what ways the green economy might pose challenges through those same channels. This section highlights the discussion on those questions.

a. The concept of the Green Economy, and its contribution to environmental

objectives

5. There is a long history to the discussions on the concept of a green economy. One early use was in a report delivered to the UK government in 1989 ("*Sustainable Development, Resource Accounting, and Project Appraisal*"), where it was defined as "economic underpinnings of the idea of sustainable development" to implement the findings of the World Commission on Environment and Development.

6. Given the historical context of discussions on the concept of the green economy, the meeting considered in some depth what we mean by it. There was broad agreement that green economy was in fact a subset of sustainable development, including all three pillars, and should be used to *enable* the process of sustainable development. Nonetheless, the green economy can have several different meanings and scopes:

- It can be seen as an **economic sector** (e.g., forests, land, water, biodiversity, energy);
- It can connote **good practices**, such as sustainable consumption and production, integrated strategies, corporate social responsibility, carbon footprint disclosure, among others;
- It can be a set of **good policies** to achieve sustainable development goals (e.g., prices, taxes, subsidies, public investment, education, R&D);
- It can be the **process of transition**, involving policies and practices described above;
- It can be a **final destination**, a desired end point where good policies and practices are universally adopted; there is a compatible structure of incentives, and a supportive economic structure.

7. On the nature of the trade and investment impacts of the green economy, there were three main types of concerns raised:

- **Protectionism disguised as green economy**: the concept of a green economy, and international approval of it as an objective of national policy, might provide cover for unjustified protectionist measures or restrictions on international trade in a certain good or service under the argument that the good or service is not "green" or not "green" enough.
- **Structural change**: the pursuit of a green economy will entail economic restructuring; demand for environmentally damaging goods should drop, and demand for environmentally preferable goods should increase. While, in the aggregate there may be some balance to this picture; the concerns raised were that not all countries will feel balanced impacts, with some countries and/or sectors within countries will suffer worsening terms of trade under a green economy.
- **Conditionality**: International and bilateral efforts to support the transition to

a green economy in developing countries could involve objectionable sorts of conditionality.

8. However, the consensus seemed to be on not defining further the concept of the green economy, but rather on focusing on the potential for the green economy to open up new opportunities while building sustainable development for all countries. In this sense, the green economy can be seen as a program.

9. When considering the green economy's contribution to environmental objectives, the UNCTAD expert meeting's discussions revolved around the following question: in what ways could trade and investment contribute to the transition to a green economy, and simultaneously support sustainable development objectives?

10. Concerns about the conflict between trade and environmental objectives are not new. As early as 1971, paragraph 4.6 of the Founex Report on Development and Environment already acknowledged these concerns, and paragraph 4.7 identified UNCTAD as the institution to provide guidance.

11. In the area of trade policy, it was noted that a successful conclusion to the WTO's negotiations on environmental goods and services was one way to increase technology transfer and environmentally beneficial outcomes. Also noted by several speakers, was the potential for trade policy to contribute to a reduction or elimination of subsidies for fossil fuels, following the example of the Doha-mandated talks on fish subsidies. This could have enormous benefits, including on climate change, among others.

12. There was also rich discussion on the potential of investment to move toward a green economy. Some thought that the need for incremental clean investment is well above the US$100 billion a year, which was referred to in the draft Copenhagen Accord of December 2009. There was some focus on the sorts of enabling environments that might foster increased investment, such as development of infrastructure, adequate market incentives and risk sharing instruments.

13. Some participants discussed how environmental objectives of a green economy might also be promoted by traditional trade-related instruments. The controversy here resides in the fact that while they may serve domestic environmental objectives, these instruments -if left unchecked- could have negative trade and investment impacts in the economies of trading partners. Such trade measures, discussed further below, include environmental standards, subsidies to encourage green production and consumption, and border measures in support of climate change.

Carbon border taxes

French President Nicolas Sarkozy repeated calls to impose a European tax on goods imported from countries with less stringent environmental laws.

In a speech, Sarkozy said he would put his weight behind convincing his European colleagues that the EU needs a carbon tax at its borders to safeguard the competitiveness of its industry. The president said that he would not accept a system where European countries impose constraints on their industries for climate protection while allowing imports to continue from countries that do not respect the same rules. "I'm in favour of environmental protection but I want to keep our industry."

President Sarkozy claims his call is not about protectionism but fair competition. He said he was encouraged by the US, where the House of Representatives included a provision for a border carbon tariff in the Waxman-Markey climate bill.

Former Portuguese Prime Minister and European Commission President José Manuel Barroso pointed out that as the world's biggest exporter by far, it was not in Europe's interest to erect protectionist walls.

(14 September 2009 in http://www.euractiv.com/en/climate-change/sarkozy-renews-pressure-co2-border-tax/article-185387)

Government support for solar energy in China

In 2009 China invested $34.6 billion in the renewable energy industry, much more than any other country. This is an example of the level of public investment that has helped China established itself as the world's leading producer of solar energy equipment.

However, China has not taken advantage of its own solar radiation potential and its dominant position as an equipment manufacturer. Reasons for this include the inability to feed the power generated by solar plants into the electricity grid. Officials acknowledge that its green energy push will take a long time to bear fruit.

Consequently the hundreds of manufacturing plants – developed with public monies – turning out solar panels and modules are enjoying an export bonanza. The industry produces between one-third and one-half of the world's total supply of photovoltaic solar cells; this output gets shipped overseas, destined to soak up sun rays and generate power in markets like Germany, Spain and Denmark. (Plafker Ted, China May Soon Make Use of Its Solar Assets, New York Times, September 29, 2010.)

The promotional financial policies and technology licensing requirements are inducing some U.S. solar equipment manufacturers to relocate production facilities to China. In one 2009 example, Evergreen Solar, a U.S. company, had difficulty raising funds to open its own plant in China, and so it secured financing from a provincial government fund to enter into a joint venture agreement that requires Evergreen to license solar wafer technology to the new venture. As a result, Evergreen is now shifting its solar panel production from its Massachusetts facility to China. (United Steelworkers, United Steelworkers' Section 301 Petition (September 9, 2010) Demonstrates China's Green Technology Practices Violate WTO Rules. www.whitecase.com/files/Uploads/Documents/alert_United_Steelworkers_Petition_Executive_Summary.pdf)

b. Green economy's potential contribution to poverty eradication and social objectives

14. The ad-hoc expert meeting addressed the question through the lens of trade and investment, asking: in what ways might trade and investment, as tools to reach a green economy, also contribute to poverty eradication and social objectives?

15. As a rule, trade and investment's main contribution to these objectives comes through increased incomes, the result of increased economic activity. Most of the discussion relevant to this question is covered in the next heading – the green economy's contribution to growth and other economic objectives.

16. There was some discussion concerning the social and poverty impacts of structural changes that could be part of a transition to a green economy. That is, for those countries in particular that specialize in resource- or energy-intensive exports, the transition to a green economy may entail an economically disruptive process with a chance of economic sectors being severely affected or disappearing entirely. There may be a need for international support to enable a transition that is less painful socially, and more positive in its final effects, than otherwise would be the case. Adverse social impacts include job loss, increased social conflicts, reduced public services, human displacement, etc.

The IFOAM organic guarantee system

There is the characterization that organic certification may be used as a protectionist measure designed to maintain the dominance in global markets of producers from developed countries by hampering access by small developing country producer to developed markets. Proponents of this argument claim that certification costs are a significant financial burden on producers in developing countries and create barriers to participation in the organic sector and moreover that certification forces these farmers to conform to developed world standards of business that do not take into consideration the current capacities and infrastructure of most developing countries.

However, IFOAM organic standards are the same for imports than they are for domestic products. Developing countries have several comparative advantages when it comes to organic production, among which are abundant labor and traditional agrosystems that align more closely with organic standards. Certification costs for smallholders in developing countries are reduced thanks to the group certification scheme, a regulatory exemption accepted by all major northern importers. The growing number of developing country producers that enter the organic global market is an indication that certification costs and standard requirements do not necessarily represent insurmountable barriers to trade for smallholders in these regions.

(Based on IFOAM www.ifoam.org/growing_organic/1_arguments_for_oa/criticisms_misconceptions/misconceptions_index.html)

c. How can the green economy contribute to growth and other economic objectives?

17. Given the mandate and context of this meeting, this question was central, and received a good deal of discussion. Contributions by experts and other participants explored both positive and negative economic implications of a transition to a green economy.

18. On the positive side, there is potential for the pursuit of a green economy to increase exports from, and investment in, developing countries. Several tools used in the pursuit of a green economy are aimed at "getting the prices right" (internalizing

external costs), such as subsidy removal and environmental taxes, and these could tilt the terms of trade in favour of developing country exporters. Other tools are aimed at investing in an alternative growth strategy; governments might resort to green procurement, including green infrastructure spending, or they might ban certain outdated technologies (such as incandescent lightbulbs) to the benefit of those exporters able to take advantage of the new opportunities. There was some concern expressed that these sorts of benefits might not be equally spread – that some developing countries would be more likely to reap these sorts of gains than would others.

19. It was noted that though developing country patent applications for clean technology were on the rise, the spread of those patents across developing countries was highly uneven. In this regard, UNCTAD was asked to look beyond the technology supply angle and analyze the demand for clean technologies in developing countries and the existing impediments to scale-up both the demand and supply of clean energy technologies, in particular for renewable energy that is accessible and adaptable to developing economies.

20. Other positive economic results of a green economy were mentioned. Primary among them was the spillover benefits that investment in new technologies might bring. That is, if some countries invest in research and development, support commercialization and create new "green" markets through government spending, it will advance the state of technology and with time lower costs of adoption for all countries. At the same time, the structural change that a green economy will bring would change terms of trade, and in some cases this may mean new opportunities (e.g., markets for rare earth minerals).

21. An additional positive factor cited is that the transition to a green economy should lead to the transformation of the production capacity and production technologies of the economy. The level of success in the transition will depend on the level and quality of investments in the transformation of the production capacity and production technologies of the economy. This emphasis on long term domestic investment could become the growth driver, and lead to a more balanced role between domestic and foreign demand-based growth. This is particularly important, at a time when the expansion of exports is showing a higher degree of competition among developing countries, for the developed economy markets. This fact provides an opportunity to focus more closely in the quality of exports – that is the link between exports and their impacts of sustainable development- rather than in the absolute volume expansion of the export sector.

22. On the negative side, there are several ways in which the pursuit of a green economy might impinge on developing country exports and reduce their in-flows of trade-related investment. Subsidies to green production that specify local content, or that are only available to domestic producers, will distort the market in this way, since they act to reduce market access of foreign producers to export markets. Similarly, PPM-based standards or prohibitions may have an equally negative effect;

a standard that specifies low carbon intensity, for example, may preclude exports from producers without access to cutting edge technologies or carbon-intensive energy matrices. Energy efficiency standards that vary across many different countries (and sectors within countries) have the effect of increasing costs for exporters to those countries. And border carbon adjustment may be too methodologically complex to be carried out in a way that protects the interests of developing country exporters.

23. There is also potential for the green economy to create negative impacts without any protectionist intent, but simply through structural change. This is the flip-side of the positive effect noted above; some countries will find their traditional exports in decline. Additionally, several experts raised the fact that for most developing countries the costs of adjusting to a green economy are higher relative to their fiscal situation, their technical capacity to steer adjustment in their own economic sectors and their access to affordable and adaptable technologies, primarily in the energy generation sectors.

24. The meeting discussed at length that this negative picture is not the last word on the subject. The analysis of the possible measures that could be taken in the unilateral pursuit of a green economy showed that most had no trade impacts whatsoever, many were positive for trade and investment, and the impact of many others would depend on the way they are designed and implemented. One expert showed how only a few measures actually had potential negative impacts, and almost all of these were covered by existing WTO disciplines. So while there may be cause for concern, the conclusion was that it must be put in the perspective of the whole green economy effort.

25. It was also highlighted, as a positive element, that the green economy is not necessarily a classic North-South divide, since many developed country conflicts were ongoing in this area, as well as complaints of negative impacts from developing country practice. This creates a broader constituency for action to address (and overcome) the potential problems. Importantly, it might open the way for greater use of policy space to address problems related to global common goods, such as climate change. The introduction of innovative and enabling policy environments that maximize the positive aspects of the green economy, with simultaneous improvements in human development could then receive wider acceptance.

26. On the question of sustainable consumption, there is an urgent need for developing countries to improve their human development, but without following the same high-impact paths taken by industrialized countries. At the same time, there is a need for developed countries to maintain the quality of their development while dramatically decreasing their environmental footprint.

contribute to policy integration and convergence among the three pillars?

27. This question was outside of the mandate for this meeting.

IV. The way forward

28. The discussion on the way forward was very rich and thought-provoking, and indicated areas where policy-relevant work was still required. This note attempts to reflect only the main highlights.

29. The benefits, risks and challenges associated with the transition to a green economy make a strong case for international cooperation to help ensure that the opportunities are exploited and the risks minimized.

30. There are many different conceptions of the green economy. Therefore the concept needs to be flexible to accommodate diverse viewpoints, approaches and regional and national settings. Any definitions of the green economy thus need to consider different levels of economic, social and environmental development.

31. There are a number of elements possible for an international approach. Technology transfer and capacity building in the new technologies are clearly central. Along the same lines, support for an enabling environment for increased clean low-carbon investment can be an important stimulus for commercial technology transfer. Efforts to create a green economy that expand the markets for new technologies are going to be essential. And creating innovative new markets, as in forestry carbon credits, is also important. As well, there is a need for increased attention to South-South trade, since diversification in the face of structural change is a virtue, and to South-South technology transfer.

32. There is a need for the international community to support a fair transition to the green economy, helping vulnerable economies cope with the difficulties of green structural change. Investing in developing economies to transition towards a green economy can be seen as a "global common good", which should benefit all. The transfer of appropriate technology and the leveraging of new and additional climate finance were identified in the UNCTAD meeting as fundamental steps towards a feasible transition to a green economy. Also the transition to more sustainable lifestyles, as opposed to lower living standards in industrialized economies was addressed.

33. With respect to the use of trade related instruments, the international community needs first to agree in the principles to design and implement these tools for a green economy. The current WTO rules are not clear, as there is no multilateral consensus on best practice. In these cases, resorting to the WTO dispute settlement mechanism might be corrosive to the multilateral trading system. What ground rules can we

agree on the elaboration and implementation of Border Carbon Adjustments (BCAs), subsidies, standards and other potentially distorting instruments?

34. There is scope and need for assistance of various kinds in supporting the transition to a green economy, including multilateral and bilateral. Such support, which includes new funding sources, investment schemes, trade-supportive measures and transfer of technology should be transparent, predictable, reliable and additional.

35. It is worth noting that there exists a broad range of unfulfilled international obligations and commitments. In pursuing a green economy in the context of sustainable development and poverty eradication, it could be asked whether it makes more sense to focus on implementation of existing commitments such as the global effort to combat climate change under the UNFCCC, to mention one. In any case, there are certainly lessons the international community can learn from past challenges as we seek to forge new commitments.

36. The green economy is not a theoretical concept. Without attempting to be comprehensive, it means lower carbon intensity, lower material intensity, lower biodiversity loss and more sustainable (and less wasteful) lifestyles in industrialized economies. Some countries are already moving aggressively to transition from an industrial economy to a new type of economy based on knowledge, efficiency and more responsible stewardship of our planet. As such, it seems imperative for all countries to reshape their development strategies and practices accordingly. And the challenge for the international community is to help make the transition accord, to the greatest extent possible, with the principles of equity and sustainable development.

37. To continue the process towards Rio 2012, UNCTAD will continue to provide substantive contributions in the trade and sustainable development aspects of the transition towards a green economy. A publication series oriented to inform members and interested parties on these issues will be launched prior to the second Prepcom in March 2011. In this same direction a more sector focused UNCTAD expert meeting is scheduled for the second half of 2011.