



CCICED Scoping Study Sustainable Trade and Investment Annex Note

February 2022

The 2021-2022 CCICED work-plan includes a scoping study on sustainable trade and investment. This scoping study is co-chaired by [Bernice Lee of Chatham House](#) and [John Hancock of the WTO Secretariat](#), and will comprise of Chinese and international special experts. The scoping study will prepare a short report based on research and panel discussions, with findings and recommendations proposing further work by CCICED in the field of sustainable trade and investment. CCICED will begin Phase VII of its five-year work plan in June 2022.

Objective: The scoping study will identify opportunities for trade policy and recent trade patterns to proactively advance to carbon neutral and nature-positive outcomes. In light of the emerging consensus of 30x30 biodiversity targets from the Kunming COP process, the Glasgow Climate Pact and related pledges made in the led-up to and during COP 26, and recent commitments to various aspects of sustainable trade, this CCICED scoping study will identify key opportunities from the vantage point of Chinese domestic policy and broader multilateral initiatives.

Recent CCICED work: Recent CCICED work related to international trade includes the 2021 report on [Global Green Supply Chains](#), the [Green Belt and Road Initiative](#), as well as related work related to [green technology innovation](#) and demand-side consumer trends related to [green goods and services and circular economy](#).

Background Note: This background note is intended to identify some recent trends and policy initiatives related to sustainable trade and investment. Given the potential scope of issues, it is not comprehensive.

Part One: Trade, Climate, Nature Proposals

In the closing years of the GATT, before the creation of the WTO in 1995, governments, think tanks, NGOs and to some extent businesses identified options to link trade and environment. A limited number of governance examples exist in regional and bilateral free trade agreements (FTAs), for example the 1995 creation of an [international commission](#) to support environmental cooperation among the U.S. Mexico and Canada in the context of the North American Free Trade Agreement (NAFTA). However, that [model was flawed](#) for several reasons, was never replicated



in subsequent agreements, and was diluted when NAFTA was renegotiated in 2017 as the USMCA.

WTO Work and Ministerial Initiatives:

As of late 2021, three Ministerial-led Statements intended to link the environment, climate and sustainability were formally launched. Together, these three separate initiatives comprise some 80 WTO members have been launched. It is important to note these are separate and open to all WTO members.

Informal Dialogue on Plastics Pollution and Environmentally Sustainable Plastics Trade (IDP): China is one of the co-leads of efforts to address how the trade regime can help support efforts to address [global plastic pollution](#). The work includes estimating the extent of trade in plastics (which has been informed by recent UNCTAD data suggesting plastics comprise 5 percent of total [merchandise trade](#)). The IDP emphasizes circular economy solutions to reduce the use of plastics, increase recycling and reuse, and engage the World Customs Organizations, Basel Convention and others. The IDP also looks to the development of a new, multilateral plastics treaty in conjunction with the WTO and UNEP, including at the February 2022 meeting of the [UN Environment Assembly](#) hosted by UNEP.

There are a large number of related national and regional initiatives and standards, including regulations [banning single-use plastics](#) by the EU, [Canada](#) and others, and wider efforts to embed circular economy within upstream product design and downstream reuse.

Trade and Environmental Sustainability Structured Discussions (TESSD): China is not a member of TESSD. Among the areas of proposed action include focused work on trade and climate change, opportunities relates to trade in environmental goods and services, share examples of voluntary measures linked to sustainable supply chains, and other measures. Initiatives like [environmental goods and services](#) and sharing voluntary measures like third-party certification, standards, labeling and other tools have been under discussion at the WTO and other multilateral agencies for decades.

Ministerial Statement of Fossil Fuel Subsidies (FFSR): China is not a member of FFSR. This initiative builds on a 2009 G20 commitment to identify and phase-out inefficient fossil fuel subsidies. Since then, there have been voluntary country-based [peer reviews of fossil fuel subsidies](#), including by the U.S., Argentina, Canada and others. Analysis by IISD's [Global Subsidies Initiative](#) has been ongoing for the past decade to estimate global and national levels of subsidy support, mainly through indirect tax treatment, while work by the IMF includes estimates of the [externality costs of subsidy](#) support. The [Glasgow Climate Pact](#) includes for the first time in any COP outcome to “phasing out” inefficient fossil fuel subsidies (despite a lack of clarity on what ‘inefficient’ means.)

Other Subsidy Initiatives: There have been other initiatives to address environmentally distorting subsidies. The issue of environmentally harmful agricultural subsidies has been



discussed sporadically since 1995 in the WTO. In 2001, negotiations to address [fish subsidies were launched](#), although with no outcome to date.

In 2018, New Zealand and five other countries launched the [Agreement on Climate Change, Trade and Sustainability](#) (ACCTS). That initiative proposes to reduce or eliminate tariffs on environmental goods, introduce binding commitments on environmental services, phasing out fossil fuel subsidies, and advance new guidelines for sustainability labels.

Investment Trade Facilitation: In 2017, WTO members including China endorsed the [Trade Facilitation Agreement](#), with goals of enhanced regulatory transparency and increased international cooperation. Given the investment needs and expected increased in overall flows linked to Glasgow and Kunming, is further work needed in this area?

Part Two: Examples of Bilateral and Regional Approaches

Since 2013, 80 percent of all trade agreements contain environmental provisions. Examples include bilateral FTAs (EU-Mexico, U.S.-Peru, EU-South Korea) and regional agreements (USMCA, CETA, EU-Mercosur). More broadly, ASEAN includes general language to advance “a modern, comprehensive, high-quality and mutually beneficial economic partnership framework for trade and investment.”

Language within trade agreements tends to be standardized language involving four key themes: allowing countries to set their own levels of environmental protection and corresponding governance tools like regulations and standards; ensuring domestic regulations are not intended to discriminate against imports; favoring some kind of targeted liberalization favoring trade in environmental goods and services; and ensuring investment laws do not hinder environmental protection.

Setting and Enforcing Regulations and Standards: To illustrate, the [CPTPP Environment Chapter \(20\)](#) allows countries to set, maintain and enforce their own environmental laws, while noting it is “inappropriate to set laws or standards intended to attract pollution intensive investments.” (20.3.4), thereby discouraging pollution havens.

Multilateral Agreements: Most FTAs list various UN and other environmental treaties: CPTPP lists the Montreal Protocol, CITES, MARPOL as well as broader trade and conservation and Illegal, Unreported and Unregulated Fishing.

Environmental Goods and Services: CPTPP recognizes the importance of trade in environmental goods and services (Article 20.18), making a general commitment to increase trade by removing trade barriers. Attempts to reach agreement in the WTO on environmental goods and services have stalled, in part because of a lack of consensus on what should be classified as an environmental good and service. The APEC 2012 agreement to lower tariffs on 54 goods primarily related to renewable energy. Progress on this issue has also stalled because of nuisance-level tariffs compared to more pervasive technical barriers to trade. For example, the

[WTO environmental database](#) notes that 14 percent of all WTO notifications under the Technical Barriers to Trade Agreement comprise environmental measures.

Text Box: The CPTPP language is similar to other FTAs, including the 2017 [EU-Canada Comprehensive Economic and Trade Agreement](#). Based on [CETA-data](#), total trade in environmental goods amounted to €7.1 billion (\$10.5 billion) in 2019, 17.2 percent higher than its level in 2016, when it was €6.1 billion (\$8.9 billion). Canadian exports of environmental goods grew 23.0 percent from €1.3 billion (\$1.9 billion) in 2016 to €1.6 billion (\$2.4 billion) in 2019, while EU exports reached €5.5 billion (\$8.2 billion) in 2019, up 15.8 percent from €4.8 billion (\$7.0 billion) in 2016. Trade in pipes and tubes for recycling purposes, prefabricated building structures, energy-efficient machinery and measuring equipment for pollution levels grew between 2016 and 2019. With the exception of energy-efficient machinery, trade for all of these goods remained higher in 2020 compared to pre-CETA levels. What is unclear is whether this growth can be attributed to the CETA provisions, as opposed to overall market growth.

Trade and Investment: Like several other FTAs, the CPTPP agreement sets out rules for trade-related investment, with general exceptions for investments related to “environmental, health or other regulatory objectives.” (CPTPP Article 9.6) Similar language exists in the China-Australia FTA Investment General Exceptions (Article 9.8). Since investment was included in the original NAFTA text, there have been legal disputes and broader concerns that investor-state dispute provisions have weakened environmental as well as public health and other domestic policies.

The USMCA agreement eliminates most of the provisions in the NAFTA Investment chapter (with exceptions for existing contracts and some investments in natural resource sectors), signalling a preference for local legal remedies as opposed to international arbitration.

Part Three: Sector-Specific Measures

Carbon-Based Steel and Aluminum: On October 31, 2021, the U.S. and EU reached an interim agreement covering tariffs for steel and aluminum, promising to negotiate by 2024 what the [White House Fact Sheet](#) called “the world’s first carbon-based sectoral arrangement on steel and aluminum trade,” promises to address global overcapacity, and “and toughens enforcement mechanisms to prevent leakage of Chinese steel and aluminum into the U.S. market.” While the October 2021 announcement concludes one of the longest-running disputes in the WTO (Boeing-Airbus), it will most certainly trigger new disputes.

Global Methane Pledge: An important outcome of Glasgow was the commitment to reduce methane emissions by 30 percent by 2030, based on 2020 levels. [The Pledge](#) - initiated by the U.S. and EU - was signed by 100 countries. China did not sign the pledge. However, [methane was a priority area](#) of the joint China-US Glasgow Agreement on Climate. Although there no trade provisions in the Pledge, given the role of methane in the oil and gas and agriculture sectors, there could be future steps to address leakage effects.

Glasgow Leader’s Declaration on Forests and Land Use: China is a signatory. The declaration contains specific language to “facilitate trade and development policies, internationally and domestically” to support sustainable agriculture, forest protection and meet zero deforestation by 2030. Since the production of soft commodities – palm oil, soy, rubber, beef/leather products, timber products, coffee – are the leading driver of tropical deforestation, a number of jurisdictions have proposed or implemented measures to ensure deforestation-free products. For example, in 2016, Norway introduced [regulations](#) to ban public procurement of soy and other goods linked to deforestation; in 2019, France adopted the [National Strategy to Combat Imported Deforestation](#); and in late 2021, the EU released details of a proposed [new directive](#) that would limit or prohibit goods that could not demonstrate they are deforestation-free.

Leakage: Border Carbon Adjustment: In mid-2021, the EU released details of its proposed [Carbon Border Adjustment Mechanism](#). Under the current schedule, the CBAM will begin fully by 2026, with transition periods in 2023 and 2025. Border carbon adjustment has been the subject of debate in the [WTO Committee on Trade and Environment](#), with most members expressing concern or opposition. There has been [extensive analysis](#) of border carbon adjustment and CBAM, including its purpose, coverage, equivalency of national mitigation measures, and likely WTO legality.

Analysis has also examined the likely effects on China by [Energy Foundation China](#), effects on developing countries by [UNCTAD](#) and implications for business by [Citi](#).

In support of this scoping study, CCICED will share a short background note in February 2022.

Part Four: Standards and Industrial Policy

Standards: International standards play an important role in international trade in general, and issues related to sustainable trade in particular. The WTO and FTAs in general provide preference for goods and services that adhere to international standards: for example, traded goods that conform with ISO standards are assumed to be compliant with various GATT provisions.

Mandatory technical standards adopted by governments cover a broad range of objectives, from food safety, public health and environmental goals. Such mandatory standards are typically shared via WTO TBT, SPS and other notifications.

More complex is assessing the trade and market access dimensions of voluntary sustainability standards, described by [UNCTAD](#) as “norms and standards that are used to ensure that a product is produced, processed or transported in accordance with certain sustainability metrics, such as environmental impact, basic human rights, labour standards, and gender equality.” The CCICED Green Value Chains report examined differing standards and related tools like third-party certification, traceability and accounting and verification tools of relevance to the sourcing of soft commodities. In 2022, CCICE launched a new Special Policy Study on Sustainable Food Systems that will examine related systems and tools.

There are varying estimates of the total number of voluntary sustainability standards: UNCTAD estimates ‘around 500’ such standards exist. The [UN International Trade Centre](#) has an online mapping tool to help exporters track voluntary sustainability standards. IISD’s [State of Sustainability Initiatives](#) tracks leading voluntary standards dominated by agribusiness standards covering coffee, bananas, cotton, cocoa, palm oil, soybeans, sugar and tea, with third-party certification bodies like Fairtrade International, the Marine Stewardship Council, Rainforest Alliance, Better Cotton Initiative, Forest Stewardship Council and others. In addition, large companies like Apple set their own sustainability standards covering the thousands of suppliers within their supply chain.

In order to help track these recent sustainability standards and initiatives, in 2021 the World Economic Forum launched its [Stakeholder Capitalism Metrics initiative](#) to help build convergence in how companies report and track sustainability measures.

A background note on recent developments in voluntary sustainability standards will be prepared in support of this CCICED scoping study.

Green Industrial Policy: The greatest challenge facing most governments in meeting carbon neutrality, biodiversity protection, environmental protection and other green development outcomes is setting out clear governance frameworks that work towards coherent policy outcomes. The number of green objectives in China’s 14th Five Year Plan sets out the ambition in meeting carbon peaking and carbon neutrality goals, but also the complex scope of sectors and policies needed to get there, from a transition to a low-carbon energy system, prioritizing carbon mitigation in hard-to-abate sectors like steel and cement, increasing green transportation and demand-side energy conservation, and leveraging carbon markets together with regulations.

Green industrial policies are an important pathway to support policy coherence and synergies. Academics like [Rodrik](#) and [Muzzocata](#) examine the role of industrial policy in meeting ambitious goals, often when the specific steps of how to meet them remain unknown. Work by the [UN International Labour Organization](#) on green industrial policy is especially helpful in examining green transition issues related to green jobs.

Green industrial policies are needed now more than ever. Yet many of the tools critical to industrial policies – local content, supporting public-private joint ventures, shielding infant industries from international competition, aligning government-led research and development with investment capital to deploy new low-carbon technologies at scale – may run afoul of trade and investment rules.

Part Five: Snapshot of China Trade Policy

Trade and China’s 14th Five Year Plan: [The 14th Five-Year Plan](#) (2021-2025) commits to “comprehensively improve the level of opening up to the outside, promote the liberalization and facilitation of trade and investment, continue to deepen the opening up of commodity and factor

of production flows, and steadily expand the institutional opening up of rules, regulations, management and standards. (Part Twelve, Article XL, page 99). The 14th Five Year Plan further notes the intention to deepen international cooperation related to production capacity, expand third-party market cooperation, build a win-win production chain and supply chain cooperation system, and expand two-way trade and investment, while adhering to “a market orientation in which enterprises are the mainstay.” (Article XLI, Section 3)

Regional Agreements: The 14th Five Year Plan commits to “actively participate in the reform of the WTO, and resolutely safeguard the status of developing members.” The Plan also commits to continue international cooperation, including through the G20, APEC, BRICS and “other mechanisms” and support the Asia Infrastructure Investment Bank, the New Development Bank, and accelerate negotiations for the China-Japan-Korea FTA, the Asia Pacific Free Trade Zone, and the Comprehensive and Progressive Trans Pacific Partnership (CPTPP). (Article LXII) China submitted its [application to join CPTPP](#) in September 2021.

The 14th Five Year Plan makes no mention of RCEP, the new regional trade agreement between countries of the Association of Southeast Action region (ASEAN) - Brunei, Cambodia, Lao PDR, Singapore, Thailand and Viet Nam with China, Japan, South Korea and New Zealand. [RCEP](#) is due to enter into force on 1 February 2022. RCEP is notable for no chapters related to environment or sustainable development, contrasting the CPTPP text (discussed briefly in Part Two below).

Following the release of the 14th FYP, China’s State Council indicated its focus on [‘high-quality’ international trade and foreign investment](#). Analysis has focused on plans to [open-up foreign investment](#), including attracting US\$700 billion between 2020 and 2025, and various commitments to fairness and opening-up.

There have been several important updates on China’s trade and development priorities for the next five years; these will be made available to the study group.

Trade Growth: Following its [accession to the WTO](#) in 2001, coupled with the growth of global supply chains, China has become a global powerhouse in manufacturing and services, ranked first in the world in merchandise exports, and second in merchandise imports.

By 2015, China produced [roughly half of the global supply](#) of crude steel, coal and cement, and roughly a quarter of the world’s motor vehicles.

China’s basket of industrial goods ranges from lower-end, labor-intensive sectors including textiles, to higher-value added knowledge-intensive goods and services like electronics and transport. The share of higher-value added, and higher-technology manufacturing exports has roughly doubled from the 1990s to 2014, with relative growth rates becoming less pronounced since 2015. For example, China is the world’s largest producer of high-speed trains, cell phones, computers, robots and other goods.

Over the past decade to 2020, the rate of growth of high-tech and medium-tech sectors has comprised the largest proportion of the average 8 percent annual growth of manufacturing, compared to the relative flattening of the rate of growth rates for traditional heavy industries including cement, steel and shipbuilding. According to the most recent [WTO Trade Policy Review report for China](#), merchandise exports increased until COVID 19, recording a peak of \$US 2.6 trillion in 2020.

Services: China trade in services increased from US\$217 billion in 2015, to US\$244 billion in 2019. Then dropping to US\$235 billion in 2020. The composition of export services was led by business services, transport and travel. Imported services into China increased from US\$434 billion in 2015 to \$506 billion in 2019, before declining to \$380 billion.

Soft Commodities: China is among the world largest importers of several soft commodities, including palm oil and soy. State trading enterprises maintain exclusive right to manage both exports and imports of several goods, including wheat, maize, sugar, cotton, tobacco, crude and processed oil and other products (WTO) 2021).

The focus of the 2021 CCICED Green Value China was on voluntary measures in support of sustainable sourcing of soft commodities, in order to mitigate deforestation and habitat loss. Various corporate-wide and wider industry groups have initiated various sustainable sourcing initiatives, for example the [2020 Consumer Goods Forum Forest Positive Initiative](#) as one example of a proliferation of third-party voluntary sourcing standards. (IISD tracks many of these through its [annual reporting](#)). Given shortcomings of many company-led voluntary schemes, in late 2021 the EU introduced [new rules on deforestation-free products](#).

Renewable Energy: China has [installed](#) 36 percent of the world's total photovoltaic (PV) capacity, and 39 percent of total wind capacity.

After 2006, China's exports of renewable energy technologies, notably photovoltaic (PV) panels and wind turbines, rose sharply: PV exports increasing 26 fold by 2010, to a value of US\$32 billion, while PV imports rose by a factor of 12. By 2010, PV exports comprised roughly 3 percent of total [equipment merchandise](#). A similar albeit less dramatic growth took place in wind-turbine technologies.

In 2018, the Trump administration imposed a [30 percent tariff on PVs](#), the first move in a wider tariff war. In 2020, a US federal judge overturned that decision. Late 2021 saw renewed calls to continue and enlarge these tariffs that remain in place by the Biden administration.

Structural Changes: An important indicator is the decline in trade as a proportion of China's GDP. From a peak in 2006 of 64 percent, there has been a [steady decline in trade](#) as a proportion of GDP, to 34 percent in 2020. This decrease illustrates an important structural change underway, from an export-led model of economic growth to the rise of China's internal market, in which the composition of domestic demand is changing to meet the demand of a rising middle-class and

urban-based consumers. Projections suggest one billion people will fall into a [middle-class category by 2030](#), while roughly 70 percent of China's population will live in urban areas.

COVID 19: China's economy contracted sharply in the early stages of the global pandemic, in response to strict lock-downs as well as a drop in international demand. The most recent figures from the China National Bureau of Statistics estimates 2021 GDP growth at 8.1 percent, reflecting an early and strong rebound.

Investment: China ranks second, after the U.S., in foreign direct investment inflow measured by value, at US\$149 billion (2020 and ranked first in [FDI outflows for 2020](#), at US\$133 billion. An important platform for China's outward-bound investments is the Belt and Road Initiative: there are varying estimates of the combined value of BRI investments, as well as their primary impact through infrastructure investments in trade facilitation: for example, a [World Bank report](#) has estimated BRI infrastructure investments have decreased trade-related travel costs by 12 percent. Other areas of research have examined the [development and related impacts of BRI investments](#).

China recently enacted a new Foreign investment Law which includes provisions intended, according to the WTO TPR 2021 report, to protect investors for expropriation, restrictions on cross-border remittances, IPR infringement and forced technology transfer.

BRI Investments: There has been growing attention to the environmental, climate and biodiversity effects of BRI investments. For example, one study estimated roughly 90 percent of public-bank BRI financing in energy and transportation was in fossil fuels, contrasting with nearly two-third of [private sector BRI financing in renewable energy](#). In 2021, China announced it would discontinue all overseas coal financing. Work by the [Global Policy Development Center](#) has used geospatial data to locate BRI investments adjacent to important areas of biodiversity and indigenous communities.

Trade Policy: A comprehensive summary of China's trade policies is set out in the WTO TPR 2021 report. Among the highlights:

- **MFN Tariffs** decreased from 9.3 percent (2017) to 7.1 percent (2021). Peak tariffs of 65 percent apply to agriculture.
- **Preferential tariffs** under preferential and regional trade are in place for Hong Kong-China and Macao-China bilateral agreements, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei), and broader preferential tariff treatment to imports from least developed countries;
- **Anti-dumping and countervail:** Between 2018 and 2020, China initiated 34 anti-dumping investigations and 8 countervailing investigations; it did not initiate any new safeguard investigations. As at end-December 2020, China was enforcing 113 anti-dumping definitive measures affecting imports from 16 countries or territories and 6 countervailing measures.

- **Export Restrictions:** A new Export Control Law has set a framework for export restrictions. Current measures comprise 102 tariff lines (at the 8-digit level) subject to statutory export duties, and an additional 75 tariff lines with interim duties. Prohibitions and restrictions are also in place on a variety of export items. Restricted exports may be subject to quotas or licences. During the review period, 23 new items were added to the list of technologies subject to export restrictions, while 4 items that were subject to export prohibition and 5 items that were subject to export restriction were removed.
- **Support and Subsidy Notifications:** SCM notification covers 79 central-level and 420 sub-central-level programmes, although the WTO notes it is unclear how many of these programs are active, level of support for sectors like aluminum, electric vehicles, glass, shipbuilding, semiconductors, or steel.
- **Standards:** China revised in 2018 its Standardization Law, reporting that 92.4 percent of mandatory standards/technical regulations and 91.4 percent of voluntary standards were adoptions or adaptations of international standards. These are reported via TBT notices. SPS standards are references through China's Food Safety Law (2015/2019)
- **State Regulation:** The State Administration for Market Regulation (SAMR) was established as the national administrative body for regulating market-related issues, including competition. A new Anti-Monopoly Bureau and a new Price Supervision and Anti-Unfair Competition Bureau were established as the competition agencies within the SAMR.
- **State Trading:** State trading enterprises have the exclusive right to import or export for following products: wheat, maize, sugar, tobacco, rice, cotton, crude and processed oil, refined coal, chemical, fertilizers, tungsten and tungstate products, antimony, and silver.
- **Waste Import Ban:** In 2018, China banned the import of most plastics and other categories of waste; in 2019 and then early 2021, that import ban has been extended to cover all solid waste products as well the end of allowing the import of certain wastes under licensing conditions.
- Certain recycling materials for brass, iron-steel materials, copper, and cast aluminum alloys may be imported if they meet the required standards.