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TRADE IMPACT
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Implications of Climate Policies for SME Competitiveness

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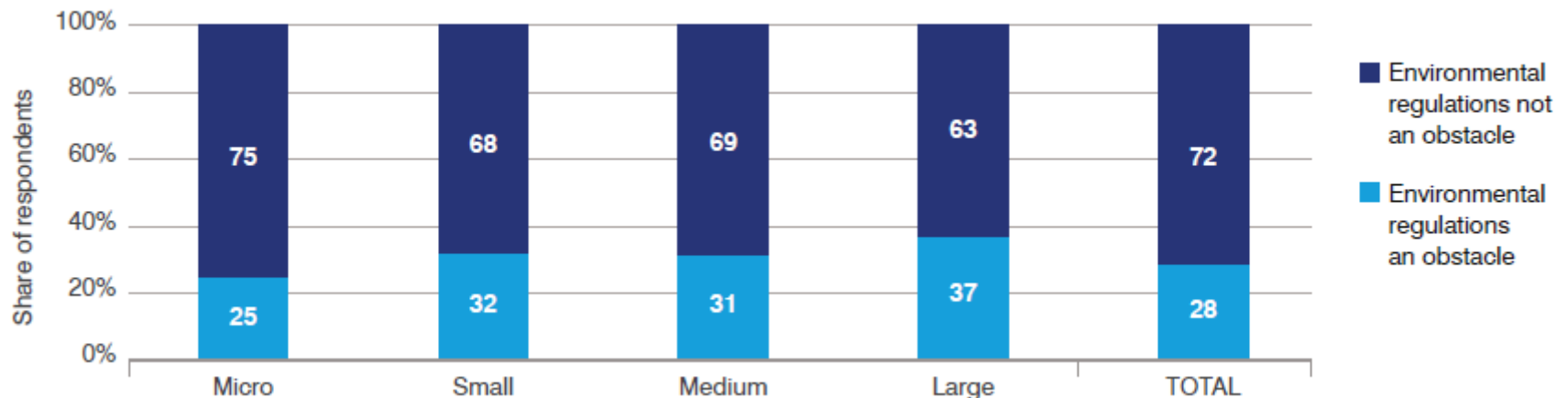


Outline

1. Implications for SME Climate Competitiveness
2. Inclusive Green Policy Responses
3. Technical Assistance

Environmental regulations impact competitiveness

- Climate policy impacts on competitiveness via
 - Environmental regulation
 - Sustainability standards
 - Green investment
 - Restructured international value chains
 - Changing trade policies
- 28% of firms surveyed by ITC in Sub-Saharan Africa view environmental regulations as obstacle to their operations

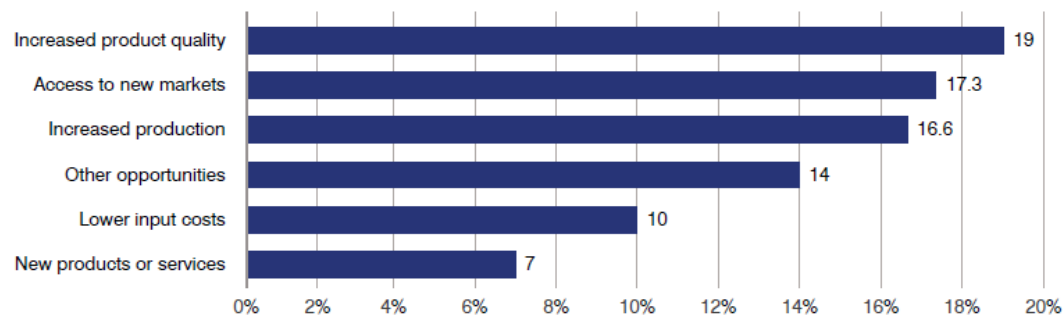


Climate repercussions for SMEs in developing countries: SWOT analysis

	Positive	Negative
Internal	<p>Strengths</p> <p>Production processes in many sectors in developing countries are already cleaner than in developed countries, so transition costs may be lower.</p> <p>Modular and thrifty economic practices (repair and reuse) favour circular economy.</p>	<p>Weaknesses</p> <p>Developing country governments often have less financing available for subsidizing the green transition among private sector actors.</p> <p>Uncertainty and lack of clarity concerning environmental regulation at home and abroad.</p>
External	<p>Opportunities</p> <p>Lower costs and higher productivity through improved resource efficiency.</p> <p>Improved access to export markets via lead firms in importing countries who prefer suppliers with climate credentials.</p> <p>Financing emerging for investments with demonstratable win-win benefits for climate and competitiveness.</p>	<p>Threats</p> <p>Risk to lose market access because of environmental regulations and standards of importing countries.</p> <p>Cost of environmental compliance may undermine price competitiveness.</p> <p>Changing climatic trends and increased variability undermines productive infrastructure and competitive edge.</p>

Building climate competitiveness

- Climate competitiveness is the demonstrated ability to provide goods and services in a manner which mitigates and adapts to climate change.
- Building SME climate competitiveness requires
 - Market incentives
 - Company understanding of climate change related risks and opportunities,
 - Crafting and implementation of strategies in response,
- 42% of the companies surveyed by ITC in Africa had invested in climate-conscious measures in the preceding three years
- **59% of the companies** that invested in greening their enterprise saw new business opportunities



Carbon footprinting

- There are business opportunities in identifying and reducing carbon footprints now to gain secure, preferential trade access later
 - Compliance with EU regulations
 - Alignment with European buyer priorities
- Several footprinting options, e.g. ISO 14000 series
- Many companies in developing countries have already adopted these measures
- Implementation challenges
 - Expertise, e.g. consultants
 - Financing
 - Access and appropriateness of technologies
 - Marketing

Carbon Measurement: Methodological issues

- What is counted?
 - Emissions in the value chain: Scope 1, 2 or 3
 - Multipliers for energy source
 - Land use changes
 - Differences in production process
 - Heterogeneity in input, transport, and final use
- How is it measured?
 - External auditing
 - Permanence of avoided emissions
 - Consideration of systemic effects
- How is compliance demonstrated?
 - Local and foreign auditors
 - Menu of certification schemes: 'soft' and 'hard', local and global
 - Need to consider southern production context

Multiple routes to enterprise decarbonization

1. Renewables pathway

- GhG footprint of large firms in developed countries often comes from fossil fuel inputs,
- decarbonization here involves moving to solar and other renewable energy feedstocks e.g. via cap and trade incentives

2. Inputs pathway

- GhG footprint of SMEs in developing countries often comes from deforestation and biodiversity-based inputs
- Decarbonization here involves reducing wastage and using circular and more efficient production processes

3. Reducing waste

4. Encouraging customer sustainable use

- Many other pathways exist for other enterprise contexts

Different contexts, different standards

- Multiple standards needed to match heterogeneity in realities, measurement, and demonstration contexts
- Mutual recognition agreements at bilateral and regional levels
- Flexible global governance of trade-compliant carbon footprinting approaches
- Preserve discretion of developing countries to adopt appropriate national green industrial policy
- For policy space to craft responsive, appropriate decarbonization pathways for both SMEs and large firms.
- Policy and technical assistance needed






What can be done? The policy imperative

- Use prism of SME reality when creating environmental regulations
 - Understanding and assessing how proposed regulation will affect smaller firms
 - adopting mechanisms such as longer transition periods that secure benefits and mitigate losses.
- Involve supplier country representatives in relevant trade policy development processes
 - craft of modalities that -facilitate SME inclusion in green trade

What can be done? The policy imperative

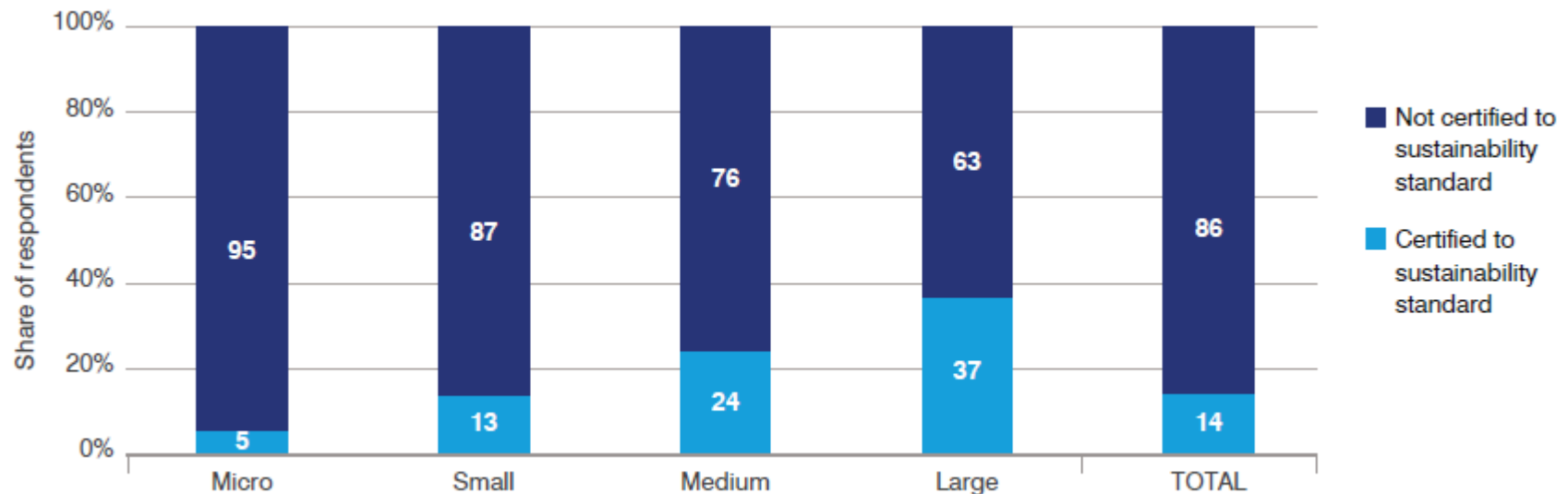
- Regulatory clarity and predictability
 - SMEs need clear, predictable regulatory approaches to plan their green transition
- Regulatory coherence
 - harmonizing regional, national and global definitions and regulatory approaches to avoid duplication.
 - International organizations have a role to foster shared standards, regulatory alignment and mutual recognition

Other actors have a role too: the Green Recovery Plan

		BUSINESS SUPPORT ORGANIZATIONS	GOVERNMENTS	LEAD FIRMS IN VALUE CHAINS	INTERNATIONAL ORGANIZATIONS
	EMBRACE SUSTAINABILITY	Develop expertise internally/seek it externally	Embed sustainability in recovery plans	Adopt a holistic approach to share and manage risk	Mainstream sustainability in development plans
	COLLABORATE, COORDINATE	Create/join networks to share knowledge	Coordinate to ensure regulatory coherence	Harmonize/recognize sustainability standards	Be a platform for information, best practices
	ADVOCATE FOR SMES	Build the local support ecosystem	'Think small first' in policymaking	Source from non-traditional locations	Bring SMEs to multilateral forums
	FACILITATE SME FINANCE	Be the trusted intermediary	Provide incentives for green finance	Facilitate access to supply chain financing	Promote tailored financial solutions
	STRENGTHEN SME CAPACITY	Train SMEs for green, innovative approaches	Promote innovation with skills and technologies	Build skills and technology base of small suppliers	Increase service offering for SMEs

What can be done? Green Aid for Trade

- Trade-related technical assistance has a lynchpin role in facilitating SME climate competitiveness
- SME Coaching: resilience, adaptation, resource efficiency and circular methods
- Matchmaking with sustainable finance providers
- Technical advice on frugal, appropriate green tech adoption
- Support for adoption of sustainability standards, given that smaller firms are **less likely to be certified** to a sustainability standard



For more information:



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