

# Unpacking the EU's Green Initiatives

WEBINAR – 14 APRIL 2022 09:30 – 11:30 CET

SUMMARY OF DISCUSSION

*This note presents an overview of discussions at the introductory webinar organized on 14 April 2022 on 'Unpacking the EU's Green Initiatives'.*

## Objective of webinar

- The transition to a green economy is inevitable – however, emerging economies and developing countries are challenged by the trade-off arising from significant investment to adapt to green regulations, which could instead be directed to other developmental needs. It is essential, in this context, to highlight that a transition to a green economy and economic development is mutually reinforcing.
- Trade is a pivotal instrument for creating policies and regulations that set the framework conditions to usher in a green economy and foster green trade opportunities for micro-small and medium sized enterprises (MSMEs).
- Mainstreaming environmental sustainability and climate resilience issues into dialogues is imperative to ensure that trade and environment considerations are effectively built into the national policy and regulatory space, and a conducive business environment is built up for MSMEs to leverage opportunities in green and sustainable trade.
- The European Union (EU) has been pioneering efforts to facilitate the green transition and is already in the process of implementing a number of initiatives to enhance green and sustainable trade. The first webinar focused on introducing stakeholders to the various EU green initiatives and regulatory developments which had an impact on trade and developing countries access to the EU markets. This webinar sought to demonstrate to the stakeholders the importance of adopting a strategic and structured approach to monitoring developments in EU's green agenda.

## Understanding the EU's Green Initiatives and Trade Impacts

**Recent EU Green Initiatives:** In recent years, the EU has rolled out a number of initiatives leading to significant legislative and regulatory activity. These are summarised below:

<p><a href="#">Green Deal</a></p>	<ul style="list-style-type: none"> <li>• Set of policy initiatives to make the European economy sustainable (more circular) and climate neutral by 2050.</li> <li>• The proposals in the EU Green Deal will have significant implications on business, leading to changes in production/supply chain strategies.</li> <li>• E.g. legislative action: <a href="#">EU Directive on single-use plastics</a>; <a href="#">Strategy for sustainable textile</a>.</li> </ul>
<p><a href="#">Farm to Fork Strategy (F2F)</a></p>	<ul style="list-style-type: none"> <li>• The F2F strategy consists of policy initiatives towards a fair, healthy and environmentally friendly food system.</li> <li>• This covers pursuing sustainable food production, sustainable food processing, and sustainable food consumption – and will have significant impacts on businesses as it would require changes in production/supply chain strategies.</li> <li>• E.g. legislative action: <a href="#">Animal Welfare</a>, <a href="#">Food labelling</a>, <a href="#">Sustainable use of pesticides</a>.</li> </ul>
<p><a href="#">Fit for 55 Package</a></p>	<ul style="list-style-type: none"> <li>• The EU has set itself a binding target of achieving climate neutrality by 2050; and has committed to reducing emissions by 55% by 2030 compared to the 1990 levels. The <a href="#">European Climate Law</a> is the legislative instrument introduced to achieve this goal.</li> <li>• The Fit for 55 package – consists of a series of 'interconnected proposals' on climate and energy to achieve this climate neutrality goal.</li> <li>• E.g. legislative action: <a href="#">Revision of the EU Regulation on Land Use, Forestry and Agriculture (LULUCF)</a>; <a href="#">Revision of the EU Renewable Energy Directive</a>.</li> </ul>

## Zooming in on specific legislative proposals

<p><a href="#">Carbon Border Adjustment Mechanism (CBAM)</a></p>	<ul style="list-style-type: none"> <li>• The CBAM aims at ensuring that the price of imports reflects more accurately their carbon content – by regulating GHG emissions embedded in certain third country products imported into the EU's Customs Union.</li> <li>• EU importers will be required to buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules. this will add additional costs to imports of covered products.</li> </ul> <p><b>Current Status:</b> <i>Legislative proposal was published in July 2021 – process is ongoing but to be adopted soon.</i></p>
<p><a href="#">Proposal for Directive on Corporate Sustainability Due Diligence</a></p>	<ul style="list-style-type: none"> <li>• The Directive seeks to impose due diligence obligations on businesses – to ensure that human rights and environment considerations are taken into account.</li> <li>• Due diligence obligations on businesses can lead to a loss of comparative advantage for imported products but be advantageous to countries/sectors that already implement stringent rules.</li> </ul> <p><b>Current Status:</b> <i>Published in November 2021, public consultation currently held, legislative processes ongoing.</i></p>
<p><a href="#">Proposal for regulation of products associated with deforestation</a></p>	<ul style="list-style-type: none"> <li>• The proposal places restrictions on commodities/products associated with deforestation and forest degradation being placed on the EU market or exported from EU.</li> <li>• This can result in increased administration and costs for companies; but can benefit countries and sectors that already maintain such stringent rules.</li> </ul> <p><b>Current Status:</b> <i>Published in February 2022, legislative processes are ongoing.</i></p>
<p><a href="#">Proposal for a Sustainable Products Regulation (Ecodesign)</a></p>	<ul style="list-style-type: none"> <li>• The proposal sets out rules to make almost all physical goods on EU market friendlier to the environment, circular, and energy efficient across all stages: design phase to daily use, repurposing, and end-of-life.</li> <li>• Regulated products are to be linked to Digital Product Passports which allows to track substances of concern along supply chains.</li> <li>• In addition, new labelling requirements providing greater product information for consumers would be introduced. w</li> </ul> <p><b>Current Status:</b> <i>Published in March 2022, public consultation to be launched, legislative process ongoing.</i></p>

For more details on these green initiatives and legislative proposals – refer to the presentation and factsheet.

## Relevance for developing countries and taking action

- EU 'green initiatives' will have direct impacts on traded goods, leading to specific market access requirements, which must be measured and factored in when developing trade strategies.
- The ability of countries, producers, traders, and service providers to access such markets, and take advantage of competitive opportunities and of tariff advantages under preferential trade agreements (PTAs) is premised on their ability to understand the applicable rules and requirements and adapt operations and regulatory frameworks in accordance.
- Accordingly, it is important to ensure that – (a) there is coordination between developing country policy makers and private sector operators to align with evolving developments; and (b) it is possible for developing countries to consult and coordinate with the EU to implement the measures required to strengthen their business environments.
- Given below is an overview of key elements drawn from the discussion:

### **(1) Effectively building in SMEs considerations – Challenges and Opportunities**

#### **Challenges faced by SMEs**

- The cost of complying with green regulations can add significant costs for SMEs in the value chain and prevent them from exporting to the EU. While there are mechanisms in place to support SMEs through delayed implementation periods, transition periods, etc. – and it may seem that these deal with the concerns faced by SMEs - it may be necessary to provide more targeted support based on the heterogeneous needs of SMEs.
- For instance, the EU proposal on due diligence seeks assurances from businesses across supply chains. Such green regulations can add cost and complexity to SMEs, but will become necessary for SMEs to link with global and regional value chains.
- The proposal does provide for companies below a certain turnover threshold to benefit from delayed implementation – but the issue is that if smaller firms are part of a supply chain that is immediately affected, these smaller firms will also have to be part of the due diligence process.

#### **Consultative processes for businesses and SMEs**

- There are built in process for various stakeholders to engage, early on, with the EU in the development of regulations, directives and legal instruments – to present needs/constraints, etc. The EU provides opportunities for public consultations- however, from past experience, a majority of comments are made by NGOs and there is a noticeable lack of inputs of the business community, including trade associations and business councils etc.
- SMEs should themselves, or via trade associations or their governments convey their concerns and positions – to be taken into account early on in the legislative process - so that it does not result in having to engage in litigation at the WTO later down the line or suffer with distortive regulation.
- Business associations, such as the EU-ASEAN Business council, have an important role in this regard as well – to inform and alert members and incorporate their views to advocate on their behalf to governments or the Commission; engage with bilateral partners and other trade associations to understand the rationale and purpose of such green initiatives; and engage with the EU Commission to facilitate communications with trade partners.

#### **ITC**

#### **Technical Assistance:**

- (a) **Sensitization of stakeholders to the EU green and sustainable trade initiatives and consultative processes in place** – ITC will continue to organize webinars as well as other awareness-raising sessions (at the global, regional and national levels) to sensitize stakeholders on these initiatives and the potential trade impacts. In addition, ITC is also able to provide the support to link stakeholders with ongoing consultative processes – so that stakeholders are up to date and able to feed into such initiatives.
- (b) **Business advocacy related support to the SMEs** – ITC provides targeted support to enable SMEs to develop policy positions and engage in policy advocacy on challenges/constraints being faced in complying with green and sustainable trade regulations, and work in collaboration with the public sector to implement the necessary regulatory and institutional reforms. This support will also be relevant in the context of preparing positions to feed into the consultative processes; and engage in negotiations to ensure that specific contexts are taken into account (discussed under (3) below).

## **(2) Quality and Standards Framework – to enable compliance with green requirements**

### **Complying with standards and quality requirements:**

- Compliance with international standards requires building in the technical infrastructure of developing countries – in terms of quality, SPS, etc. – to demonstrate compliance with certification requirements, etc. This would require efforts to strengthen the food control mechanism, building up capacity of conformity assessment bodies such as testing laboratories, plant protection offices, food safety authorities.
- In addition, there are voluntary sustainability standards – which adds value to the products and strengthens competitiveness of the firms complying with these standards.

### **Participation of developing countries in formulation of international standards:**

- Any regulations in place on product standards, safety and labelling regulations, conformity assessment procedures, etc. – need to be based on international standards.
- Accordingly, participation of developing countries in formulating such international standards is increasingly important. WTO TBT and SPS Committees serve as effective platforms to raise trade concerns in this regard.

#### **ITC**

#### **Technical Assistance:**

- (a) **Capacitating standards and conformity assessment bodies:** ITC is providing support in various countries to strengthen regulatory frameworks to comply with relevant standards and quality requirements; capacitate institutions and conformity assessment bodies to implement this regulation and develop certification and accreditation capabilities.
- (b) **Support for firms to implement standards:** At the enterprise level, ITC is sensitizing enterprises on EU regulations and other market requirements including the voluntary sustainable standards and buyer standards. ITC has also developed a standards mapping tool that enables users to identify relevant standards for products and undertake self-assessment for compliance. ITC is also building a network of potential trainers to sustain the efforts to small enterprises through the Quality Champion programme which includes modules on quality management and food safety, environmental and energy management.

## **(3) Policy and Regulatory Framework – to facilitate sustainable supply chains**

### **Aligning domestic regulatory frameworks:**

- While the burden seems to be on the private sector to comply with due diligence processes, there is an important role to be played by policymakers to ensure that the policy and regulatory environment supports sustainable supply chains – and support to de-risk value chains.
- Having a proper regulatory framework in the country governing environment and working conditions – creates a prima facie trust for investors and EU investigators to make sure imports coming from such a country are more likely to comply with new regulations.

### **Negotiations for trade facilitation mechanisms:**

- Developing countries may require economic incentives to pursue sustainable trade, and this can be met through trade facilitative solutions – such as gaining preferential market access through sustainable trade. The EU is already moving in this direction – by including trade and environment chapters in its preferential trade agreements and implementing sanction and enforcement mechanisms.
- Efforts can be taken to build in further trade facilitative solutions through negotiations – such as sector specific chapters to allow for mutual recognition to enable certifications to be recognised and develop capacity for compliance with technical regulations and standards of the importing country. Trade negotiations also present unique opportunities to convey positions and highlight issues of stakeholders at the political-level and should particularly be leveraged by SMEs.

#### **ITC**

#### **Technical Assistance:**

- (a) **Strengthened trade negotiations:** ITC provides technical/advisory support for policy makers to develop negotiating positions on green and sustainable trade policy and regulatory issues – including by undertaking technical sessions with policy makers on green/sustainable trade commitments, building in private sector input, and ensuring that national contexts and concerns are represented.
- (b) **Domestic policy and regulatory support:** ITC provides technical expertise to review, develop and revise legislative and regulatory frameworks in order to align with international commitments on green and sustainable trade, and better align with target market requirements in order to create a more conducive framework for businesses to operate and link with global and regional value chains, and attract investments into the country to engage in sustainable trade.