

# HOW TRADE POLICY CAN SUPPORT MOVES TO A MORE SUSTAINABLE, GREENER FUTURE

## KEY POINTS

- The climate crisis already represents a threat to livelihoods of millions of small-scale farmers and workers in low-income countries, driven by increasing carbon emissions. They need investment and support to adapt and mitigate against the worst impacts of the crisis.
- Trade policy has a major role to play: CO2 emissions are dominated by agricultural and industrial production and the transport of goods.
- The UK Government has the opportunity to show leadership through its newly independent trade policy to reduce emissions, decarbonize supply chains, and further investment for farmers and workers at the bottom of our supply chains.
- An aligned trade and climate policy is not only vital in meeting the UK Government's aims to support those on the lowest incomes but is also key to the UK's long-term economic interest. Resilient supply chains are in the interests of UK businesses and the consumer.

## TRADE AND CLIMATE

The climate emergency represents a damaging reality and ever-increasing threat to the livelihoods of millions of small-scale farmers and workers in lower-income countries reliant on agriculture for a significant proportion of their income.

Without an income, farmers and workers are unable to invest in the types of mitigation and adaptation techniques needed to protect the environment, and their businesses. This represents a vicious cycle of poverty in which steps towards environmental protection and decarbonisation are likely to be beyond the reach for those who cannot even afford to feed their families.

This also matters to UK consumers and businesses. Climate change, and the ability of farmers to grow their produce, is also threatening the survival and sustainability of supply chains behind some of the UK's best-loved imports, such as coffee, cocoa and bananas. This sits within a bigger picture of economic risk predicted from rising emissions. Indeed, DIT's own Board of Trade note that \$44 trillion of economic value is exposed to nature loss globally, and that global GDP will be hit hard by a failure to meet Paris commitments<sup>1</sup>.

The alignment of trade and climate policy is therefore going to be critical for the UK's economic interests, as well as meeting climate goals. Through its independent trade policy, the UK Government has new opportunities to ensure that our trade policy works in support of

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<sup>1</sup> ["Green Trade", Board of Trade policy paper, accessed 7 October 2021](#)

producers, consumers and businesses by putting its climate change commitments front and centre, decarbonising supply chains and accelerating action towards Net Zero, securing our supply chains for the future.

## THE IMPACT ON FARMERS AND WORKERS IN LOW-INCOME COUNTRIES

Fairtrade producers have told us that climate change is the biggest threat to their livelihoods. They and their communities are the ones on the front line of the climate crisis, despite having contributed the least to cause it.

We have heard first-hand from Fairtrade producers how communities dependent on agriculture bear the brunt of the climate emergency, and how they lack the resources and tools to withstand its devastating consequences. They face critical situations, caused by more frequent and intense droughts, floods and storms, erratic weather patterns, the loss of fertile land, the emergence of new pests and the spread of crop diseases.

A recent study highlights that the main environmental challenges perceived by Fairtrade producer organisations are deforestation, water contamination, changes in rainfall patterns (timing, amount, frequency and severity), water scarcity and increasing temperatures. The producer organisations 'expect these identified environmental problems to lead to production losses and increases in production costs'<sup>2</sup>.

At the same time, poverty feeds back into further environmental damage, as it pushes producers to farm in an unsustainable way – for example by using cheap, toxic chemicals or by cutting down trees to sell timber or to clear land for cultivation. As the Food and Agriculture Organization (FAO) has pointed out, small-scale family farmers often lack access to the resources they need to adapt to a changing climate<sup>3</sup>, so many farmers are not investing in the resilience and adaptation needed for their own livelihoods and for food production.

## WHAT THIS MEANS FOR UK FOOD SECURITY

The UK has a high interest in promoting resilience and investment in such fragile and threatened supply chains. The risk is not just to food security and livelihoods in lower income countries, but to the availability, choice and price that UK consumers will experience in future decades in the supermarket. 12%<sup>4</sup> of UK food comes from Asia, Africa and Latin America, with 45% of the UK's food coming from overseas.

Overseas food plays a particular role for products which cannot be grown in the UK, such as bananas and coffee, and also allows a "round the year" supply of fresh fruit and vegetables. The Trade & Agriculture Commission report puts the value of food imports at £47.7 billion<sup>5</sup>. Ensuring that these food supply chains are as climate-friendly and sustainable as possible will help limit shortages and keep future prices down.

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<sup>2</sup> Fairtrade International (2020), Fairtrade Environmental Study, [https://files.fairtrade.net/publications/Fairtrade-Environmental-Study\\_2020.pdf](https://files.fairtrade.net/publications/Fairtrade-Environmental-Study_2020.pdf)

<sup>3</sup> Food and Agricultural Organization of the UN (2018), The State of Agricultural Commodity Markets 2018, [www.fao.org/publications/soco/2018/en/](http://www.fao.org/publications/soco/2018/en/)

<sup>4</sup> <https://www.gov.uk/government/statistics/food-statistics-pocketbook/food-statistics-in-your-pocket-global-and-uk-supply>

<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/969045/Trade-and-Agriculture-Commission-final-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/969045/Trade-and-Agriculture-Commission-final-report.pdf)

Fairtrade has built up a wealth of experience in how to invest successfully to reduce the impact of serious shocks. For example, during the pandemic, we found that farms with higher levels of sustainability investment have ridden the crisis better. When the COVID-19 pandemic hit farms in low-income countries with poor working conditions and wages with drops in sales, many laid off workers rather than retaining them on furlough – making a restart harder. By contrast, many Fairtrade farms had assets which enabled shielding leave or furloughing<sup>6</sup>. Our recent report “Blooming Back Better” looks in detail at this issue in the context of East Africa flowers during COVID<sup>7</sup>.

## ADDRESSING THE BIG PICTURE OF TRADE AND CLIMATE

There appears to be an increasing acknowledgement by DIT that trade and climate policy needs to be held together. The Trade Secretary has spoken on climate and trade, and in particular the challenge of ‘carbon leakage’, while climate was discussed by G7 Trade ministers in the June 2021 summit. The Board of Trade’s “Green Trade” report<sup>8</sup> also acknowledges the threat arising from climate change and suggests a number of actions in support of liberalisation. However, our view is that more is needed to bring trade policy into alignment with the ambition demanded by climate science.

It is on the “big picture” where more is needed. Currently, our overseas emissions account for nearly half<sup>9</sup> of those that the UK is responsible for, and the proportion is expected to grow to up to 80 percent by 2050. While we strongly welcome the recent news that the Government is set to extend the UK’s carbon budget to cover international aviation and shipping, an essential first step towards the UK taking responsibility for the emissions coming from the produce we import, more is needed. Trade policy has a major role to play in reducing this overseas footprint: CO2 emissions are dominated by agricultural and industrial production and the transport of goods<sup>10</sup>. A recent report by ODI notes that “*if the international shipping industry were a country, it would be the seventh-largest emitter in the world*”<sup>11</sup>.

For example, as the government seeks to secure new Free Trade Agreements (FTAs) it remains unclear how robustly environmental and climate concerns are being addressed in the strategy behind the larger FTAs in particular. In other words, when a trade deal is on the table, to what extent will the outcome increase global GHG emissions or reduce them? How carefully has this question been considered? Are negotiators prioritising positive outcomes where there are trade-offs?

FTA negotiations are underway with Australia, a country with a poor record on climate action<sup>12</sup>. A trade deal with Australia without clear attention to climate could work against the UK’s commitment to reduce emissions by 68% by 2030 and achieve net-zero emissions by 2050.

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<sup>6</sup> COVID-19 lessons for business and the food system <https://www.n8agrifood.ac.uk/blog-posts/fairtrade-and-the-covid-19-response-lessons-for-business-and-the-food-system/>

<sup>7</sup> [Fairtrade-Blooming-Back-Better.pdf](#)

<sup>8</sup> [Board of Trade report: green trade \(HTML executive summary\) - GOV.UK \(www.gov.uk\)](#)

<sup>9</sup> [https://www.fairtrade.org.uk/wp-content/uploads/2021/02/A-Climate-Of-Crisis\\_Fairtrade-Foundation\\_Feb-2020\\_HR.pdf](https://www.fairtrade.org.uk/wp-content/uploads/2021/02/A-Climate-Of-Crisis_Fairtrade-Foundation_Feb-2020_HR.pdf)

<sup>10</sup> <https://ourworldindata.org/emissions-by-sector>

<sup>11</sup> The Climate and Trade Nexus in Africa, ODI, 2021 <https://odi.org/en/publications/the-climate-and-trade-nexus-in-africa/>

<sup>12</sup> [The Australia trade deal makes a mockery of... | Trade Justice Movement \(tjm.org.uk\)](#)

The Government's scoping assessment for the Australia-UK trade deal<sup>13</sup> acknowledges that serious emissions impacts are possible, but very little detail is given on the challenges or solutions. It has also been [reported](#) that content on climate has been removed from the deal at Australia's request.

Tackling these emissions also means promoting low-carbon investment along the whole supply chain – including not only greener freight options, but also more sustainable farming methods. The focus of policy needs to be the carbon footprint associated with different supply chains, rather than "transport miles" per se. However, the sheer scale of emissions related to international trade mean that governments must collectively and urgently work to reduce trade-related emissions.

Impacts on emissions, promotion of green goods and low carbon production can all be incentivised through a clear trade and climate policy. The opportunity is ripe for trade policy that, together with other policy instruments, *actively encourages* the highest environmental standards, the reduction of trade's carbon footprint and furthers prosperity in low-income countries.

## POLICY RECOMMENDATIONS

The Fairtrade Foundation believes that the UK Government ought to:

1. **Take a “whole footprint” approach to trade policy and future trade deals that will help the UK to show global leadership on trade and climate.**
  - In order to promote policy coherence across trade and environment policy, the UK should produce **a white paper** outlining how post-Brexit trade policy aligns with existing climate and environmental commitments, encourages fair trading practices, provides transparency and gives parliament and civil society a voice in the negotiations. There should be alignment to the Sustainable Development Goals (SDGs), to UNFCCC agreements and the UN Convention on Biological Diversity (CBD) with such measures given a legislative footing. The paper should make clear that environmental protection and sustainable development ought to take precedence in trade negotiations and trade deals, even if international trade is restricted.
  - Future trade deals must be accompanied by **ex-ante and ex-post environmental impact assessments**. These should include modelling future FTAs from the perspective of the change in emissions which will result – stimulating flows which have a low footprint, and disincentivising flows with high emissions. Impact assessments are vital to ensure policy coherence between future UK trade policy and sustainable development/environmental priorities. To have maximum usefulness they will need to be timely, independent, and published before a negotiating mandate is established.
  - Environmental commitments and non-regression clauses in trade deals **must be binding**, with regular review by a wide range of stakeholders and a mechanism for enforcement.

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<sup>13</sup> <https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-australia/uk-australia-free-trade-agreement-the-uks-strategic-approach#chapter-4-scoping-assessment-for-a-bilateral-free-trade-agreement-between-the-united-kingdom-and-australia>

2. **Adopt a smart mix of trade policy measures that will help to encourage low carbon investment across supply chains, while disincentivising high carbon production and less environmentally friendly goods.**
  - **Market mechanisms alone will not deliver at sufficient pace without supportive policy.** Trade policy should encourage the production of sustainable products and uptake of green technologies including through the use of subsidies and tariff reductions. Lower tariffs for green technologies already form part of the Environmental Goods Agreement dialogue at the WTO. However, the UK Government should further push for international trade policy, through its independent seat at the WTO, that supports reduced trade barriers for goods produced to high sustainability standards<sup>17</sup>.
  - **Measures to address carbon leakage** need careful design to avoid harm to low-income farmers. “Carbon leakage” refers to scenarios where the introduction of emissions reduction policies within the UK may lead to a situation in which carbon intensive industries move production overseas, without reducing their carbon footprint. A suggested mechanism for dealing with the issue of carbon leakage has been the introduction of a **Carbon Border Adjustment Mechanism (CBAM)**, which would apply taxes to higher emissions imports to the UK. If any such mechanism is introduced, care must be taken to ensure that lower-income producers are not adversely affected by measures. Financial support must be offered to enable low-income smallholder farmers to reduce emissions in order to meet CBAM targets.
  - The Government must push at the WTO for international trade policy that encourages **green technology transfer / IP to producer countries** to enable low carbon energy, transport and production to support the decarbonisation of supply chains. Currently, stringent intellectual property provisions can create barriers to the transfer of green technology – recognised as vital to achieving climate goals.
  - The UK Government can sign the **Agreement on Climate Change, Trade and Sustainability (ACCTS)**, members of which propose to reduce barriers to trade in environmental goods and services, phase out their fossil fuel subsidies and encourage the promotion and application of voluntary eco-labelling programs and mechanisms. Signing ACCTS would be an important step in the right direction and offer the UK government an opportunity to show leadership on environmental trade policy at the international level. In particular, we are keen to ensure that any eco-labelling component is robustly designed with the needs of farmers and workers in mind.
3. **Trade should work in support fair, sustainable and resilient supply chains-contributing to the realization of living incomes and wages for farmers and workers, while building resilience for UK imports. The UK Government can implement policies that support trade for development objectives, enabling climate resilience and adaptation, ensuring farmers and producers have the investment needed to tackle the crisis.**

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<sup>17</sup> These standards ought to include internationally recognised standards on the environment, biodiversity and international human rights commitments.

- The Government can push for free trade agreements which encourage **regional integration** in a way that supports reductions in transportation emissions and trade for development objectives. Increased regional trade (for example through the Africa CFTA and African regional trading blocks) can offer ways to ensure continued livelihoods for farmers and workers in industries with carbon-intensive transport requirements, while reducing the UK's imported carbon emissions
- The UK Government can develop trade policy which looks to address the barriers that exist to farmers in the low-income countries moving up the **value chain to the next stage of the production process**. It should ensure that tariff regimes encourage trade in higher value added goods, and that Rules of Origin enable low-income countries to manufacture and trade goods within global value chains. Such measures would support improved income for farming communities, increasing their capacity to invest in more environmentally friendly production techniques.
- The UK Government should ensure that **future trade deals do not result in preference erosion**, and a loss of market access for producer countries.

#### 4. Other policy areas

Many of the necessary actions with regard to supply chain emissions are cross-government. The Fairtrade Foundation believes that action in the following areas will complement and support action by DIT.

- **Encouraging action by business**
  - ➔ UK businesses will need to invest to strengthen resilience in their supply chains, including a willingness to pay higher prices for the produce they import. Government can support / reward high performing businesses in this space and can also compel minimum behaviours, for example, through the introduction on mandatory Human Rights and Environmental Due Diligence (mHREDD) legislation<sup>18</sup>.
  - ➔ The introduction of a law to tackle deforestation in company supply chains as part of the Environment Bill is a welcome step forward. The Fairtrade Foundation welcomes the introduction of Schedule 26 in the Environment Bill 2019-21. This is an important step in the right direction, but we remain concerned that the legislation only requires businesses to meet national laws on illegal deforestation, and does not sufficiently include Human Rights, which are fundamentally linked to the issues around deforestation and poverty. We would like to see companies are held to account in line with international laws and guidelines, as opposed to weak or ill-enforced national laws, and covering all forms of deforestation. We are keen to see the proposals made more robust, particularly through the use of secondary legislation, to avoid unintended consequences on the ground.
  - ➔ With the EU also working on due diligence legislation, which has a wider social and environmental focus; the UK can match or outpace their ambition, leading to similar requirements from the two neighbouring markets. This is widely supported by business.

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<sup>18</sup> The Fairtrade Foundation is a member of the Corporate Justice Coalition, calling for a 'failure to prevent' law in the UK: <https://corporatejusticecoalition.org/>

- **Aid and Climate financing**

- ➔ The UK's presidency of COP26 is an opportunity to drive forward progress towards the climate finance commitment of over \$100billion a year, as agreed under UNFCCC rules. We'd also want to see a return to spending 0.7% of GNI on UK aid for 2022.
- ➔ UK aid and adaptation programmes should supporting farmers and workers adapt to the impact of climate change, as well as making the shift to net zero production and transport.
- ➔ It should also be used to support farmers and workers to decarbonise production systems, including ensuring that they can absorb the costs of more sustainable methods of farming. This could include targeted programmes, as well as commitments from UK business to pay higher prices to farmers and worker for their produce.
- ➔ Financing can also be targeted to support innovation and investment in zero carbon freight solutions.

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