

PRESS RELEASE (**strictly embargoed until 0001 CET, November 15, 2023**)

Radical rethink and reforms required to climate-proof trade

New report asks how trade and climate can be aligned to meet global climate goals and be resilient to climate change

Climate change could cause the breakdown of the hydrological cycle by 2040 leading to the commoditisation of water, while severe disruptions to trade force countries to radically shorten supply chains and engage in a costly reshoring of key industries.

This eventuality forms part of one of three plausible “explorative” scenarios detailed in a new report: *The Future of Trade in a Net Zero World*.

More than 80 expert participants worked over the course of a year using “strategic foresight” to understand the role of trade in a world aiming for net zero greenhouse gas emissions by mid-century, the global goal set by the Paris Agreement on climate change.

Initiated by the European Climate Foundation, it seeks to answer many questions including about the current state of trade and its institutions, the impact of a worsening climate on trade, and the relevance of geopolitics, with a focus on what policies can be pursued to better align trade and climate protection.

Richard Baron, trade programme director at the European Climate Foundation, said: “The foresight process has helped us explore the increasingly pivotal role of trade in delivering ‘net zero’ as well its importance in prosperity and resilience to climate change. This ranges from our ability to source critical raw materials in a way that is beneficial to producing and consuming countries, to the measurement of carbon ‘embedded’ in traded products.

“It has also shown us that the future probably holds uncomfortable surprises and challenges and that by trying to anticipate these policymakers will be better placed to align climate and trade agendas. Even under a best-case plausible scenario, trade will be increasingly challenged by climate disruptions, while continued growth in material consumption will test rapid decarbonisation efforts.

“Addressing these will require a departure from business-as-usual policymaking, taking account of not just the growing climate crisis but also gathering geo-political tensions.”

Multi-lateral trade cooperation

The breakdown of the hydrological cycle admittedly occurs in the worst of the three scenarios explored by the group, but its effects are amplified by an already fractious trading environment.

This is a key takeaway from the project, across the scenarios: that trade cooperation which can transcend short-term thinking and geo-political differences will be the most effective in helping to mitigate and adapt to climate change.

And by extension, multi-lateral institutions such as the World Trade Organisation have a big role to play in facilitating that cooperation. However, the report makes clear that the current trade rules are out of step with the need to align trade and climate, and reform will be required.

The report sets out a number of strategic options that could be pursued right now by EU and other policymakers to address future challenges as well as taking account of the project participants' "ideal vision" or normative scenario for 2040.

These include:

- Cooperatives to facilitate the sharing of mitigation and adaptation know-how and technology
- Trade & Strategic Alliances and CRM Agreements to support mutually beneficial critical raw materials and other supply chains, fostering value-retention in partner countries
- Seeking a global agreement on the measurement of carbon embedded in traded products to facilitate the progressive alignment of traded goods and climate mitigation
- Establishment of a Climate Resilience and Adaptation Fund for trade infrastructure.

Baron added: "It was important to the group that these policy recommendations were rooted in reality in order to be taken seriously and have a practical application. Trade and strategic alliances, for example, build on developments we already see happening, such as with the EU-Namibia memorandum of understanding on hydrogen and CRMs."

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