



Industry Report

October 2020



The Future of Trade: Sustainability as a Gamechanger

Sustainability is no longer a woolly concept. It has become a golden ticket in a world that is increasingly concerned with its impact on the environment. The European Green Deal, first presented in December 2019, epitomises the growing significance of sustainability on trade by increasing requirements for importers. In fact, swift sustainability action is needed for exporters to Europe as it prepares to become the first climate-neutral continent in the world. At the same time, the Agreement on Climate Change, Trade and Sustainability (ACCTS), jointly launched in September 2019 by New Zealand, Norway, Iceland, Costa Rica and Fiji, shows that trade rules can support action on climate by removing barriers on environmental products and services.

The European Green Deal

Making Europe climate neutral by 2050 is the overarching aim of the European Green Deal. 50 policies covering the following areas are planned to achieve this:

- Climate Neutrality
- Circular Economy
- Building and Renovation
- Farm to Fork
- Eliminating Pollution
- Sustainable Mobility
- Biodiversity

Many of the policies will relate to activities within the EU, but the areas of Climate Neutrality, Circular Economy, and the Farm to Fork strategies will have particular relevance to trade.

Climate Neutrality

The EU has succeeded in decoupling emissions from economic growth over the past three decades. Net greenhouse gas emissions have fallen by 25% between 1990 and 2019 while GDP grew by 62%. However, it is still far away from being climate neutral in 2050. For an interim goal by 2030 the European Parliament voted a couple of weeks ago on 6 October 2020 to update its climate target to reduce emissions by 60% compared to 1990 levels by 2030. However, approximately one-quarter of the emissions of all goods consumed or processed in the EU are due to imports.

“The EU’s share in global emissions is declining, we need to make sure now that our partners also take action. The Commission will enhance enforcement of sustainability

commitments in trade agreements” states the European Commission. The EU carbon border tax, officially known as the carbon border adjustment mechanism, will reflect the carbon content of goods imported into the EU countries. Essentially, the EU does not want to reduce emissions in its own countries only to negate it by importing emissions from other countries.

In summary, this means it will be harder a) for companies to transfer production from the EU to countries with lower climate requirements, and b) to choose carbon intensive products from those countries over EU products.

Companies already taking climate action will have a competitive edge when the carbon border tax finally hits. In fact, companies that trade or plan to trade with EU countries need to be ramping up, or at the very least, beginning their climate action efforts and developing resiliency measures to protect their profits and the planet.

Circular Economy

Achieving the EU’s climate and wider environmental goals also requires a new industrial policy based on the circular economy. This will focus on resource intense sectors such as textiles, construction, electronics and plastics. Of specific relevance to exporters from New Zealand is the proposed measure that all packaging in the EU is reusable or recyclable by 2030. This will be for all goods placed on the EU market and will apply to all food exporters to the EU.

The Circular Economy Action Plan also foresees “that companies substantiate their environmental claims using Product and Organisation Environmental Footprint methods.” Product Environmental

Footprinting (PEF) was developed to provide a standardised methodology and support product comparisons in the jungle of existing green labels. It is built on Life Cycle Assessment, a useful tool for quantifying environmental impact of a product across environmental indicators including carbon footprint, water, and resource use. Pilot projects of the PEF methodology have already been completed, some with input from New Zealand food producers.

Farm to Fork

The Farm to Fork Strategy, presented in May 2020, will be of particular relevance for New Zealand as a food exporter. The EU, as the number one importer of food products worldwide and the largest seafood market, aims to promote a global transition to sustainability. This will be achieved in cooperation with partners through trade agreements and a sustainable food labelling framework which will allow consumers to choose healthy and sustainable diets. The proposed mandatory labelling will cover nutritional, climate, environmental and social aspects of food products.

While specific targets such as a 50% reduction in the use of pesticides and reduction of at least 20% in fertilisers use are currently planned for EU countries, it is expected that these target will become the norm for all products placed on the EU market.

Agreement on Climate Change, Trade, and Sustainability (ACCTS)

While the European Green Deal will likely add requirements to trade partners, the Agreement on Climate Change, Trade and Sustainability (ACCTS) is designed to

generate momentum toward wider, globally agreed solutions to environmental challenges. A central aim is to remove barriers to trade in environmental goods and services, such as products related to clean energy generation like wind turbines and solar photovoltaic cells.

Similar to the EU, ACCTS pushes for eco-labels that are fair and not based on arbitrary choices. Eco-labels need to consider the product's full life cycle, including its production, packaging, and method of transport and not just at the distance between production and consumption, often referred to as "food miles".

Opportunities for New Zealand

New Zealand may be in a good position in its ongoing trade negotiations with the EU with the Zero Carbon Act and the New Zealand Emissions Trading Scheme (NZ ETS) in place. A good understanding of the carbon footprint of exported goods, clear sustainability labelling and sustainable food production will be essential for future trade. There will also be a demand for innovative technologies supporting clean energy and circular economy solutions. In a nutshell, for exporters in particular there is a clear business case for sustainability.

©Barbara Nebel, CEO of thinkstep-anz