Three Countries, One Environment: Environmental cooperation and free trade in North America

Product Policy in Support of the Global Transition to a Circular Economy: Trade interaction

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THREE COUNTRIES, ONE ENVIRONMENT: ENVIRONMENTAL COOPERATION AND FREE TRADE IN NORTH AMERICA

by Richard A. Morgan

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"The original North American Free Trade Agreement represented the most advanced trade agreement of its time, with respect to innovative environmental provisions. The new free trade agreement continues this evolution."

Never before have the dual crises of climate change and biodiversity loss been such high policy priorities for governments around the world. Similarly, the opportunities to transform our economies and communities into drivers of clean, green growth are more understood and harnessed than ever before.

Throughout North America, the winds of change are being felt across our shared environment. With renewed trilateral commitment embodied in modernized agreements on free trade and environmental cooperation, the Commission for Environmental Cooperation (CEC) is poised to move the needle on pressing regional and global environmental issues, including those related to trade.

A Historic Milestone and Turning Point

In July 2020, Canada, Mexico, and the United States began implementing the strongest set of environmental provisions ever included in a free trade agreement (FTA), as the new agreement (known respectively by the parties as CUSMA, T-MEC, and USMCA) entered into force alongside a companion Environmental Cooperation Agreement (ECA). Notably, the new trilateral FTA contains a dedicated chapter—Chapter 24—that incorporates all environmental provisions.

This chapter makes these provisions enforceable and commits the parties to concerted efforts on issues of common concern. These include unsustainable fishing, illegal trade, transboundary pollution, and the implementation of multilateral agreements, among others. To speak of the truly transformative evolution in trade relations, as the Office of the United States Trade Representative has deemed it, the new agreement represents the "strongest, most enforceable environmental obligations of any trade agreement."

Chapter 24: A 'Bold Vision for Evidence-Based Decision Making'

The original North American Free Trade Agreement (NAFTA) represented the most advanced trade agreement of its time with respect to innovative environmental provisions. The new FTA continues this evolution. Chapter 24 defines "affecting trade or investment" in a novel way, creating a strong and clear statement that the effective enforcement of environmental laws is a critical priority alongside the expansion of economic and trade relations. Article 24.4.1 and its three footnotes embody this renewed commitment of Canada, Mexico, and the United States particularly succinctly: "No Party shall fail to effectively enforce its environmental laws through a sustained or recurring course of action or inaction in a manner affecting trade or investment between the Parties."

"Chapter 24 helps create enabling conditions for transformative trilateral actions that have the potential to position North America as the preeminent model for clean, green growth and help achieve domestic, multilateral, and global goals simultaneously."

As consumers and companies alike become increasingly responsive to the many detrimental impacts arising from environmental degradation, this prominent article demonstrates a significant shift in commitment to ensuring that international trade and investment do not come at the expense of our environment.

Chapter 24 also contains the longstanding CEC Submission of Enforcement Matters (SEM) process, which helps ensure that governments are effectively enforcing their environmental laws. This process includes a unique non-adversarial fact-finding mechanism that allows any person or non-governmental organization in North America to file a submission with the CEC Secretariat asserting "that a Party is failing to effectively enforce its environmental laws."

Elsewhere, Chapter 24 helps create enabling conditions for transformative trilateral actions that have the potential to position North America as the preeminent model for clean, green growth and help achieve domestic, multilateral, and global goals simultaneously. The chapter contains a prominent public information mandate and mentions explicit matters of mutual interest. These range from "corporate social responsibility and responsible business conduct" and "voluntary mechanisms to enhance environmental performance" to updated approaches to trade vis-à-vis biodiversity, invasive alien species, fisheries, forest products, and innovations related to "environmental goods and services."

Taken as a whole, Chapter 24 represents a bold vision for evidence-based decision making that integrates a nuanced approach to the complex synergies and tradeoffs inherent in trade and sustainability.

And What About the CEC?

The fate of the CEC was not taken for granted with the desire to renegotiate NAFTA. However, cooperation was recognized as a cornerstone of reaching both individual and joint objectives to protect the environment shared by Canada, Mexico, and the United States.

In fact, this commitment for cooperation was furthered not only through the affirmation of the CEC as the prime vehicle for trilateral cooperation, but also with the creation of a new Environment Committee under Article 24.26.2, "composed of senior government representatives, or their designees, of the relevant trade and environment central level of government authorities of each Party responsible for the implementation of [Chapter 24]."

Alongside the dedicated environment chapter, the companion ECA establishes a comprehensive framework to modernize, facilitate, and enhance trinational environmental cooperation within the context of trade liberalization. The ECA highlights the facilitation of

partnerships, linkages, or other new channels, for the development and transfer of knowledge and technologies among representatives from academia, the private sector, and Indigenous peoples. It also emphasizes enhanced cooperation and modern approaches, particularly in the CEC's strategies for communications and stakeholder engagement.

The ECA reaffirms the vital role that we play as a unique, innovative, and important institution, creating official linkages on a North American scale in our commitment to the meaningful involvement of all sectors of society, including industry and other partners and in our development of modern, creative tools and techniques to address environmental issues and concerns.

"As the CEC enters a new era of enhanced cooperation, the renewed trilateral commitment and ambitious agenda under the new ECA mark a turning point in its 25-year history."

As the CEC enters a new era of enhanced cooperation, the renewed trilateral commitment and ambitious agenda under the new ECA mark a turning point in our 25-year history. Major issues will continue to evolve as North America leads in the race to confront climate change, restore ecosystems, and build economic, environmental, and social resilience. The CEC will adapt and respond by designing innovative solutions involving communities, the private sector, and a broad range of stakeholders.

A New Strategic Vision for Environmental Cooperation

Aligned with the commitments outlined in the ECA, the CEC's Strategic Plan 2021–2025 has renewed our mandate and is already driving an ambitious agenda centred around six strategic pillars. As a conduit for cooperation, the CEC's work in the future will conserve, protect, and enhance the North American environment through its work on:

- Clean air, land, and water
- Preventing and reducing pollution in the marine environment
- Circular economy and sustainable materials management
- Shared ecosystems and species
- Resilient economies and communities
- Effective enforcement of environmental laws

Of particular importance is working to identify and facilitate win-win solutions that can address environmental issues of common concern while supporting opportunities for sustainable innovation, clean technologies, and regional competitiveness.

Looking ahead, the CEC will continue to emphasize collaboration, inclusiveness, diversity, excellence, integrity, and innovation. At the same time, we will remain highly committed to meaningful involvement of all sectors of society, including industry, non-

"With a particular focus on cultivating innovative and effective solutions and diverse and inclusive stakeholder engagement and public participation as cross-cutting approaches in all our work, the CEC is well-positioned to serve as an ever-improving model for international environmental cooperation."

governmental organizations, academia, youth, and local and Indigenous peoples and local communities. The CEC remains uniquely positioned to capitalize on the promise of a new trilateral agreement and build on current momentum to take on our ambitious agenda and help secure a sustainable future.

The CEC provides a neutral forum for examining emerging and complex issues as well as possible strategies to address them. Much of our success can be attributed to our ability to address these important issues for North America by acting as a convener and facilitating consensus among experts and policy-makers in the three countries.

Over the years, we have facilitated the development of innovative joint approaches, experts' networks, and tools such as the North American Marine Protected Areas Network, the Trinational Monarch Conservation Partnership, our *Taking Stock* report,[1] and the North American Environmental Atlas, an interactive mapping tool to research, analyze, and manage environmental issues in the region.

CEC's wide-ranging topics also include work on extreme events and disaster risk reduction, conservation of the monarch butterfly along its migratory routes, and working to measure, reduce, and prevent food loss and waste across the food supply chain. We also engage youth, especially in our annual Youth Innovation Challenge, which offers young entrepreneurs the chance to win seed funding for their innovative solutions, to develop their solutions with mentors and peers, and to meet with their country's top environmental officials during the annual CEC Council session.

With a particular focus on cultivating innovative and effective solutions (as well as diverse and inclusive stakeholder engagement and public participation as cross-cutting approaches in all our work), the CEC is well-positioned to serve as an ever-improving model for international environmental cooperation.

Transforming Words on Paper Into Actions for People and Planet

To address pressing issues such as climate change and biodiversity loss, a common approach that engages the whole of society is critical for our environment, our prosperity, and our health. The CEC will redouble its efforts to engage and include the private sector as a key partner in achieving our objectives and bringing benefits to communities. We welcome and encourage the involvement of all relevant sectors in the implementation of our vision for sustainable

[1] This is an online database that provides data on trinational pollution releases and transfers.

development in North America and harness the momentum from the winds of change.

In addition to the two new agreements in 2020, the Chair of the CEC Council also rotated from Canada, under the leadership of the Honourable Jonathan Wilkinson, Minister of Environment and Climate Change, and is now held by Michael Regan, Administrator of the United States Environmental Protection Agency. Along with bold domestic commitments from the new U.S. Administration to issues of common concern, such as climate change and environmental justice, the CEC is already adapting to these priorities, and words are being transformed into action.

On the heels of President Joe Biden's Leaders Summit on Climate in April, the White House announced USD 1 million in new grants or cooperative agreements for work supporting environmental justice and climate resilience "with underserved and vulnerable communities, including Indigenous communities, in Canada, Mexico, and the United States to prepare them for climate-related impacts." With renewed commitment in North America to "strengthen trilateral collaboration" and cooperate on pressing regional and global issues related to trade and the environment, the "trilateral course to address climate change and other environmental priorities" is being charted enthusiastically and optimistically once again.

As the CEC deepens its impact in advancing sustainable development in North America, we eagerly anticipate an ambitious first meeting of the three environment ministers of Canada, Mexico, and the United States under these new agreements and our new Strategic Plan. The United States will host CEC's 28th Council Session (#CEC28) in Wilmington, North Carolina, from September 9 to 10, with a theme dedicated to climate change and environmental justice solutions.

Following #CEC28, the Chair of the CEC Council will rotate to Secretary María Luisa Álbores González, Mexico's Minister of the Environment and Natural Resources. In this role, Mexico is expected to continue advancing key priorities such as the social element of environmental concerns and issues related to access to a healthy environment, particularly for Indigenous peoples and local communities and in the context of recovery from the COVID-19 pandemic.

As North America builds back better, environmental cooperation will remain at the core of our economic and social relationships.

PRODUCT POLICY IN SUPPORT OF THE GLOBAL TRANSITION TO A CIRCULAR ECONOMY: TRADE INTERACTION

by Malena Sell

Malena Sell is a circular economy senior specialist at the Finnish Innovation Fund Sitra.

"The transition to a circular economy entails a deep paradigm shift set to address the triple crises of climate change, nature and biodiversity loss, and the unsustainable use of natural resources."

The transition to a circular economy entails a deep paradigm shift set to address the triple crises of climate change, nature and biodiversity loss, and the unsustainable use of natural resources. The fundamental logic of the linear take-make-discard economy will be replaced with one based on a new policy that ushers in safer, more durable, repairable, and recyclable goods—as well as replacing conventional product ownership with business models including product-as-a-service-systems, leasing, and sharing. The economy must be decoupled from virgin material input if we are to remain within our planetary boundaries.

The European Union is taking the lead in the global circular economy transition with its Circular Economy Action Plan (CEAP) of March 2020. In the CEAP, the European Commission lays out the framework for a new sustainable product policy. While recycling, reverse value chains, and markets for secondary raw materials remain highly relevant in the circular economy, the focus has moved decidedly upstream to the design phase.

In fact, 80% of a product's environmental impact is determined during the design phase. For the economy to become circular, each product and material must be designed toward circularity at the outset, from a cradle-to-cradle perspective—and its life cycle traced accordingly. Here, another innovation in the CEAP relates to developing and expanding the use of digital product passports.

The transition to the circular economy goes hand in hand with the transition the world is undergoing to a digital economy, a process greatly accelerated by the COVID-19 crisis.

The European Union's level of ambition on the circular economy is high, and it is not alone. A growing number of countries are adopting their own circular economy plans or roadmaps, including China, India, Chile, and many African countries. As they stake out the way forward, regulatory measures and circular product policy are part and parcel of the implementation process.

Trade, Regulation, Standard Setting, and the Global Circular Economy Transition

As the circular economy transition spreads around the globe, the practicalities of this new economic order will come to the fore. Trade is a key connector and enabler. The way we produce, consume, rent, repair, and eventually discard, recycle, and reintegrate our goods and materials into the economy is intricately linked through global value chains—increasingly also through reverse value chains.

The current trade system is not well geared toward the circular economy revolution, however. Our customs codes are often

blind to secondary raw materials or goods destined for reuse and refurbishment, and their updating process is slow. Differentiation based on process and production methods—including their resource and energy efficiency—is still controversial.

International cooperation is needed to implement the circular economy shift. Informal discussions on trade and the circular economy are ongoing at the World Trade Organization, and the Organisation for Economic Co-operation and Development (OECD) is leading the way in valuable technical background work, with input from a wide range of stakeholders. Business-led organizations such as the World Economic Forum and the International Chamber of Commerce are providing important practical insight.

As the implementation of the circular economy goes ahead, much of it will be based on new regulations and standards that are being developed in different parts of the world. The risk is that these circular economy standards will be different or incompatible. Therefore, the time to start coordinating the work is now, rather than having to work out complicated conformity assessment and mutual recognition schemes after the fact.

"As implementation of the circular economy goes ahead, much of it will be based on new regulations and standards that are being developed in different parts of the world. The risk is that these circular economy standards will be different or incompatible."

Management Standards and Product Standards

The OECD (2020) and the European Union (2019) have defined two categories of standards relevant to the circular economy focusing on: (i) organizational and management aspects of a circular economy and (ii) products that work toward circular economy objectives.

An example of the former, the International Organization for Standardization is working on an international circular economy standard focusing on organization and management (Technical Committee 323), with the participation of all major trading blocs. This is a slow but important process that will be a gamechanger for businesses and government regulators alike.

The OECD divides circular product standards into two categories according to where they occur in the value chain. The first group is related to upstream design and production. These include material content standards, recycled content standards, hazardous content standards, recyclability standards, reparability standards, and sustainable production standards. The second group focuses on the downstream part of the value chain. These include material quality standards for waste and scrap and secondary raw materials, as well as product quality standards for refurbished, remanufactured, and second-hand goods.

Much of the standard setting related to the latter category, e.g., circular product policy, will likely be business driven and take place outside the diplomatic—let alone trade—negotiating framework.

Detailed product policy is being worked out in separate jurisdictions, often building on the back of current product standards. Most materials and products in use are already subject to numerous quality and safety standards. This is nothing new to the private sector. Most of the time, the work is not starting from scratch; rather, it modifies existing product standards.

When it comes to new circular business models and circular services, the situation is different—indeed, it is starting from a clean slate. This holds true in the area of digitally enabled circular solutions.

EU Circular Product Policy and the Ecodesign Directive

As mentioned, one example of circular product policy development is that taking place in the European Union under the CEAP.

The EU Batteries Regulation, published in December 2020, lays out the blueprint for what circularity means for one product group, and lessons from the legislative negotiations may have a bearing on the upcoming Sustainable Products Initiative. This regulation covers the full life cycle of batteries, from sourcing to recycling. As electrification proceeds under countries' climate neutrality targets, the production and use of batteries are expected to grow 14 times between 2018 and 2030, placing significant pressure on material extraction. The European Union is setting increasingly stringent targets for battery recycling, allowing for the reuse of key minerals such as cobalt, lithium, nickel, and lead.

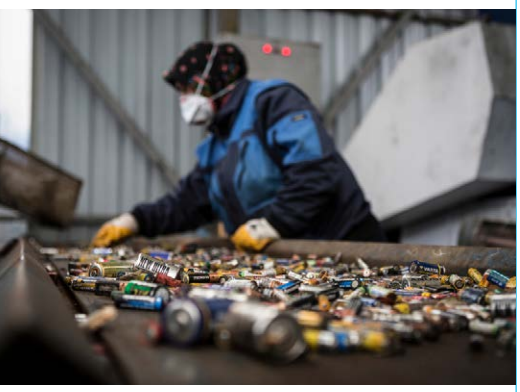
Under the Sustainable Products legislative Initiative, the CEAP foresees the expansion of the Ecodesign Directive beyond energy-related goods as a primary tool to operationalize its new circular product policy. The directive, which stems from the first generation of the EU Circular Economy policy launched in 2016, focused on energy efficiency and was limited in scope (consumer electronics) compared to the new requirements for a much larger range of products—at its broadest, every product placed on the EU Single Market.

The focus is a set of priority product groups: electronics, information and communications technology, and textiles, but also furniture and high-impact intermediary products such as steel, cement, and chemicals. Overarching product policy principles and minimum sustainability and information requirements will be developed for most relevant goods.

There will also be rules and incentives on extended producer responsibility and product life extension. These include take-back schemes, products-as-a-service, and repair services or guarantees for spare parts availability.

In addition, the European Union will require sustainability labelling and disclosure of information to consumers on products along value chains, as well as set rules for mandatory minimum sustainability requirements on public procurement. Measures are planned on raw materials and goods as well as on production processes (e.g., to facilitate recycled content or remanufacturing and to minimize the use of hazardous substances).

Standards will be developed to complement ecodesign and energy labelling regulations. Together, they will indicate that a product meets the requirements. Manufacturers can then use the CE marking and sell the product in the European Union. The policy process is at an early stage: public consultations are ongoing and open both to EU and non-EU stakeholders.



"As the development of new circular economy standards takes off, it will be important to consider trade impacts and international cooperation at the outset."

Steps Ahead

As the development of new circular economy standards takes off, it will be important to consider trade impacts and international cooperation at the outset. The European Union cannot become an island. As the first mover, the bloc has the opportunity to become the standard-setter for the global circular economy.

Success will depend, however, on working with other leading countries and regions, and taking on board less advanced countries. Concerns have already been raised about the ability of developing countries to fulfill new requirements, awakening old fears about green protectionism.

However, it is important to recognize that the circular economy is not another green add-on and will not rely on traditional voluntary (or semi-voluntary) private sector standards. Rather, it goes beyond this and entails a whole new product policy in line with what is happening in the digital sphere, when new technologies and products are created. Increasingly, goods and services are also fully integrated, with implications for standards development.

Open dialogue and exchange are very important from the outset. Such discussions could take place in Geneva, bringing together trade negotiators and standard-setting bodies as well as the private sector, which will be carrying out the practical work.

Free trade agreements could also provide a forum for dialogue and regulatory cooperation, given that they already have committees on technical barriers to trade or trade and sustainable development in place.

Under free trade agreements, another option would be to negotiate a new and specific chapter or annex on circular economy to cover issues related to standards and market access. As a possible model

and example, the EU–Singapore and EU–Vietnam agreements contain chapters on sustainable energy that lay the groundwork for close cooperation. These chapters focus on removing tariff and non-tariff barriers as well as adhering to international standards and/or mutual recognition of standards. Similarly, specific chapters on the circular economy could focus on product policy development.

To strengthen cooperation between developing and developed countries, Aid for Trade could focus on technical assistance related to circular product policy and standards. Cooperation could also be facilitated along value chains such as textiles, information and communication technology, or plastics, involving the private sector and allowing co-creation and learning through doing, a strategy UNIDO is actively pursuing.

The transition to a global circular economy will involve many different paths and processes. Cooperation on relevant standard setting provides a pragmatic way to weave circularity into global value chains and facilitate circular trade.

TOURISM RECOVERY AND RESILIENCE IN COMMONWEALTH SMALL STATES: DRIVING CIRCULAR ECONOMY PATHWAYS POST-COVID-19

by Kim Kampel

Kim Kampel is a trade adviser on negotiations and emerging trade issues for the Commonwealth Small States office in Geneva.

"COVID-19 presents an opportunity for a tourism reset, as governments rethink building sustainable pathways toward recovery to ensure that their tourism sectors are resilient to future climatic events, natural disasters, disease outbreaks, and economic shocks."

This article highlights strategies that could ensure the resilient recovery of tourism sectors in Commonwealth Small States (CSS) and enable them to differentiate themselves competitively in the new "business-as-unusual" tourism reality post-COVID-19. It focuses in particular on how COVID-19 has precipitated approaches toward a circular tourism services economy, showcasing how many CSS are already incorporating circular economy principles and practices as they reboot their tourism services markets.[1]

COVID-19 has triggered a cognitive paradigm shift, recognizing the pressing need for people to coexist in balance with an increasingly fragile natural environment rather than destroying it. Accordingly, COVID-19 presents an opportunity for a tourism reset, as governments rethink building sustainable pathways toward recovery to ensure that their tourism sectors are resilient to future climatic events, natural disasters, disease outbreaks, and economic shocks.

At the same time, recovery from COVID-19 coincides with countries looking to transition from a linear economic model of overconsumption and waste generation. The pandemic is accelerating the shift toward circular tourism practices and resource-efficient models as countries reset their tourism strategies to be more sustainable, resilient, and regenerative.

Tourism-dependent economies in some CSS are well-placed to capitalize on this. Many have already adopted innovative, indigenous solutions in response to the decimation of the sector wrought by COVID-19. The benefits include reduced carbon ecological footprints, delivering on climate goals; preserving biodiversity and limiting zoonotic outbreaks; enabling competitive differentiation/diversification in future business models; and building value throughout the tourism value chain, with critical socio-economic spillovers.

There is further scope for such practices to boost and expand trade opportunities in other sectors and attract much-needed investment. Thus, adopting circular practices in tourism gives CSSs a tool to tackle the climate crisis, avoiding the overuse of natural resources and the loss of biodiversity while increasing socio-economic well-being and trade benefits.

[1] Previous articles chart potential sustainable tourism recovery strategies post-COVID-19 in CSS as envisaged by the Sustainable Development Goals, by capitalizing on the new normal to reboot their tourism sectors. This paper is based on a presentation for ADB/ADBI/WTO Regional Policy Dialogue on Trade and Sustainability in the Context of COVID-19, in November 2020. It also updates previous papers. Kampel, K. (2020). *COVID-19 and tourism: Charting a sustainable, resilient recovery for small states*. Trade Hot Topics. Commonwealth Secretariat; Kampel, K. (2020). LDC tourism: Making strides towards sustainable, resilient recovery from COVID-19. *Trade for Development News*. Circular Economy and Tourism paper, work-in-progress.

"Adopting circular practices in tourism gives CSS a tool to tackle the climate crisis, avoiding overuse of natural resources and the loss of biodiversity, while increasing socio-economic well-being and trade benefits."

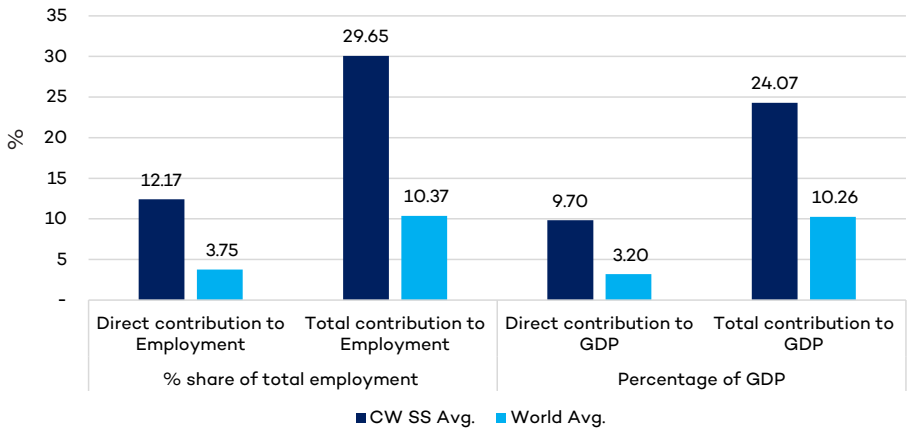
How Has COVID-19 Affected CSS Tourism?

The Commonwealth comprises 14 least developed countries (LDCs) and 32 "small" states, designated according to Secretariat criteria.[2] Tourism is the economic lifeblood for many—especially for 25 small island developing states (SIDS). It is one of the primary contributors to job creation, investment, and foreign exchange, spilling over into related sectors such as agriculture, the creative and cultural industries, manufacturing, transportation, finance and insurance, electricity, water, construction, and other services.

For LDCs and SIDS, rapidly growing travel and transport exports respectively accounted for 65% and 85% of their services exports in 2019.[3] Tourism also attracts significant amounts of domestic and foreign investment, accounting for USD 948 billion of capital investment in 2019.[4]

To illustrate the importance of the sector for small states, tourism added 30% on average to total employment from 1995 to 2019, almost triple the world average of 10.4%, and 24% to GDP, more than double the world average of 10.3%. Tourism contributes more than 30% of GDP in 14 of the 32 CSS. This varies from as high as 56% in Maldives, 43% in Antigua and Barbuda and the Bahamas, to 30% in Barbados and Vanuatu.[5]

Contribution of tourism to GDP and employment (% share) – 1995 to 2019



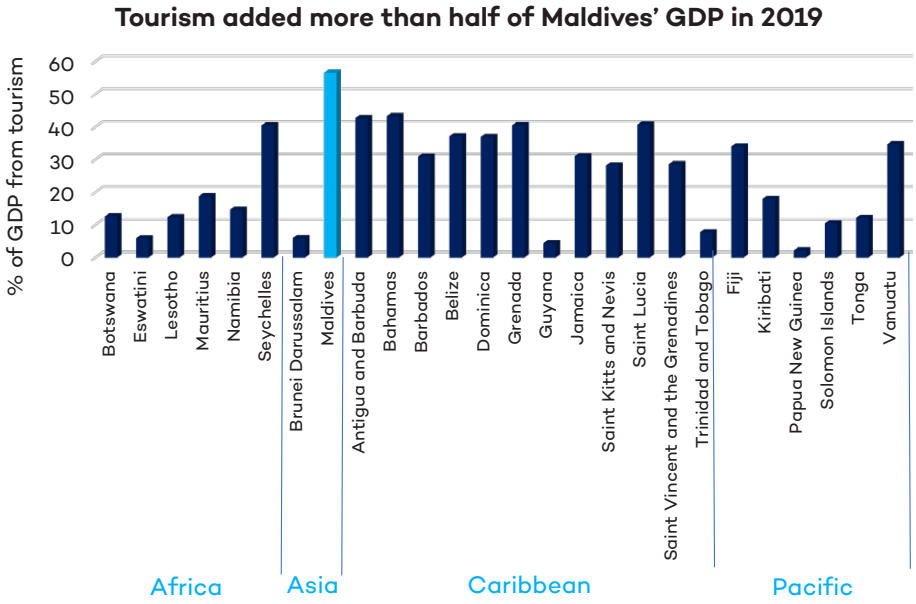
Source: Commonwealth Secretariat using World Travel and Tourism Council data.

[2] The Commonwealth Secretariat defines small states as countries with a population of 1.5 million people or less, or countries with a bigger population but share many of the same characteristics.

[3] United Nations Conference on Trade and Development (UNCTAD). (2021). *Trade and environment review: Trade-climate readiness for developing countries*. https://unctad.org/webflyer/trade-and-environment-review-2021

[4] *Ibid.*

[5] Commonwealth International Trade Policy Section. (2021). Impact and recovery from COVID-19 for Commonwealth Small States. *Small States Matters*. Commonwealth Secretariat.



Source: Commonwealth Secretariat using World Travel and Tourism Council data; World Bank data.

The WTTC estimates that more than 62 million tourism jobs were lost in 2020—a drop of 18.5%. **The full devastating impact of COVID-19 on global travel and tourism last year manifested in the decline in the** sector's contribution to global GDP, dropping a staggering 49.1% in 2020 compared to 2019.[6]

"CSS face particular challenges that make the free-fall in their dominant tourism sectors even more acute."

The pandemic has been devastating to the tourism sectors of SIDS and small states, even if the health impact, relative to other economies, has been marginal. The impact of COVID-19 on tourism, economies, and livelihoods in SIDS economies was estimated to have translated into a combined drop in SIDS GDP of 6.9% in 2020 versus 4.8% in all other developing countries.[7]

CSS face particular challenges that make the free-fall in their dominant tourism sectors even more acute. They are small, lack economies of scale, are remotely situated from major source markets, and face high trade costs. They also have concentrated production and export sectors, fragile public infrastructure, and limited public resources. They are also vulnerable to natural disasters and climatic events. The significant degree of integration of their travel and tourism sectors with other economic activities resulted in economic

[6] World Travel & Tourism Council (WTTC). (2021a). *Economic impact report travel & tourism economic impact*. https://wttc.org/Research/Economic-Impact; and World Travel & Tourism Council. (2021b). *US$4.5 trillion loss to global tourism sector due to COVID-19*. Insights. https://insights.ehotelier.com/global-news/2021/03/30/us4-5-trillion-loss-to-global-tourism-sector-due-to-covid-19/

[7] This is mainly due to global contractions in two ocean economy sectors that are important to many SIDS: coastal tourism and fisheries. Organisation for Economic Co-operation and Development (OECD). (2021). *COVID-19 pandemic: Towards a blue recovery in small island developing states*. OECD Policy Response to Coronavirus. https://www.oecd.org/coronavirus/policy-responses/covid-19-pandemic-towards-a-blue-recovery-in-small-island-developing-states-241271b7/

shocks and losses from the pandemic radiating to low-income informal, community sectors, and vulnerable groups, including women.

Recovery Measures in the Tourism Sector

Most countries implemented mitigation, response, and recovery plans for their tourism sectors in 2020.[8] Two broad categories of measures were discernible. The first included short-term, immediate crisis-management responses, including stimulus and relief packages to maintain supply-side capacity and alleviate economic and livelihood losses. The second were measures that focused more on medium- to long-term resilience and recovery of the tourism sector.

Unlike in more advanced tourism destinations, most CSS—many with high debt-GDP ratios—could not rely exclusively on economy-wide or sector-specific stimulus packages and relief measures. Accordingly, sustainable strategies in the medium to long term have been crucial to ensuring the survival of their tourism sectors, as a pathway to economic recovery, especially given the need to maintain the vital socio-economic linkages and spillovers that the sector cultivates.

Early in the pandemic, many CSS governments considered how to make tourism sustainable and resilient against future adverse climatic events, natural disasters, disease outbreaks, and economic shocks. Uncertainties about border reopening and vaccine supply as well as flight disruptions have not prevented many CSS from taking their own measures toward resilience and recovery.

Such supply-side strategies, in advance of the reopening of tourism markets, have included maintaining capacity along the tourism value chain, refurbishing and investing in critical infrastructure, and developing capacity and skills, including rigorous health and safety protocol implementation and training for key workers. The Jamaica-based Global Tourism Resilience and Crisis Management Centre has deployed and scaled up comprehensive, coordinated crisis-management and recovery mechanisms, consolidating ministries, civil society, academia, and the private sector, to drive regional recovery. Vanuatu, in the Pacific, has incorporated informal sector women's groups in government consultations to guide recovery.

Additionally, enhanced regional collaboration (including harmonized protocols and mitigation strategies) can facilitate subregional supply-side competitiveness and recovery, as recognized throughout the Pacific and Caribbean regions.

[8] Based on guiding recommendations and policies issued by global travel bodies, including WTTC and the United Nations World Tourism Organization (UN-WTO).

On the demand side, CSS governments have adopted various recovery strategies to revitalize demand. These include encouraging domestic staycations and intraregional tourism; experimenting with cross-border travel corridors between countries with low infection rates to restore confidence and diversify source markets; offering flexible long-stay options; successfully using virtual and digital marketing strategies to showcase destinations and experiences to stimulate demand and lure back customers; and incentivizing the use of digital tools and remote, paperless technology to future-proof and build resilient pathways for tourism into the 21st century.

Furthermore, the rollout of comprehensive travel health and safety protocols and vaccination strategies (where vaccines are available) as markets reopen and border restrictions ease, combined with innovative, diversified, differentiated tourism offerings, have helped rebuild tourists' trust and confidence in tourism destination markets, capitalizing on pent-up demand. For example, Maldives recently announced plans for a 3V Tourism Program comprising the elements of "visit, vaccinate, and vacation."

Such measures make the most of CSS competitive advantages to attract tourists, collectively holding a wealth of biodiversity, wildlife, and cultural assets. Many boast unique geographical configurations that serve as vast natural virus-containment zones, whether in self-contained luxury camps in abundant wildlife areas or on archipelagic island configurations, offering appropriately socially distanced, self-contained getaways in natural, non-urbanized environments to quarantine-weary travellers seeking to escape dense, populated cities. Some small states are proactively transforming these into innovative tourism offerings, rather than allowing tourism assets to degrade as casualties of COVID-19 through wildlife poaching, degradation of marine ecosystems, coastal habitat loss, or deforestation, thereby preventing zoonotic diseases and future pandemics.

Many CSS governments see the pandemic as an opportunity to link recovery efforts with the global climate agenda. They are using blue ocean protection and sustainable, green, eco-friendly strategies to leverage tourism products, simultaneously strengthening resilience to the impacts of climate change, acknowledged as central to the sustainability and viability of the tourism sector.

For some Pacific SIDS, ocean-protection measures have become a major tourism business. They are recognized as complementary strategies to adapt to climate change, simultaneously enabling a thriving tourism economy to support livelihoods and employment while enlisting local, traditional communities as stewards to protect natural resources and biodiversity.

Many of these blue/green economic strategies also embody elements of a circular economy approach to tourism.

The Circular Economy and Tourism

As already mentioned, some CSS are already capitalizing on the trend toward circularity in the tourism sector, incorporating practices that embody the principles of remake, reuse, and recycle in processes or resource utilization practices.[9]

How is circularity applied in tourism? As countries reset to a new post-COVID-19 reality, regenerative, circular tourism is gradually changing the conceptualization of sustainable tourism. Unlike the latter, this involves a more long-lasting, proactive, inter-generational approach of resilient tourism, by offsetting the impacts of tourism on the environment, local communities, and the host country as a whole.

In the tourism sector, circular principles have translated into slower forms of tourism, encompassing longer stays, less consumption, low-impact activities, using recyclable processes and materials as well as waste reduction and renewable technologies; ecosystem conservation and mitigating climate or natural disaster risks. This approach also embraces cultural sensitivity, actively contributing to local community-based projects, enabling just distribution of benefits, and ensuring socio-economic spillovers through local value addition and revenue generation throughout the tourism value chain.

The COVID-19 pandemic has catalyzed the various forces driving this evolution to a circular tourism economy. Tourists are increasingly sensitive to the vulnerabilities of destinations, boosting appreciation for ethical, nature-based tourism and the need to leave a positive, responsible, sustainable footprint on the destination. National and global climate imperatives toward sustainable, cleaner methods of consumption/production, as a means of ensuring responsible climate strategies, are also driving a push toward circularity in all business activities. New Zealand recently adopted this approach, unveiling plans to "reset" tourism for a post-COVID-19 world.

In planning post-pandemic recovery, many CSS are also taking circular approaches to tourism. Mass tourism—characterized by packaged, long-haul offerings, with frequent, carbon-intensive chartered and scheduled flight arrivals—historically dominated CSS tourism sectors, especially in SIDS. Popular cruise packages have also concentrated tourism traffic, negatively affecting islands' energy and resource consumption and pressuring environmental resources, heritage sites, local services, and infrastructure.

At the same time, revenue leakage has been a major obstacle to sustainable tourism growth in many SIDS. Fiji has been proactive

[9] The linear economy is known as *take–make–dispose*, while the circular economy is characterized by *borrow–make & reuse–recycle*. Lopez, L. (2020). *Circular economy in the tourism sector*. EHL Insights. https://hospitalityinsights.ehl.edu/circular-economy-tourism-sector

in regenerative tourism efforts in the Pacific, allowing tourists to participate in experiential tourism with a community dimension, now aligned to COVID-19 best practices. Many Pacific tourism operators already employ recycling and renewable energy practices that enable them to be self-sufficient from main island grids, protecting ecosystems and managing costs.

Other SIDS have been venturing beyond "sun, sea, and sand" vacations to market experiences involving indigenous communities, including cultural heritage and musical activities. Some also encourage specific tourist-participation projects such as tree planting, turtle protection, and local skills training, though there is scope to improve these efforts and track the uptake levels.

As a direct result of the pandemic, many CSS SIDS now focus on long-stay offerings that reduce the environmental footprint caused by frequent, cheap, long-haul flights. More "digital nomad" or long-stay remote working schemes (targeting already employed business or corporate people) have been rolled out, including in Barbados, Bermuda, Antigua and Barbuda, and Mauritius. These innovative solutions essentially capitalize on the pandemic-induced trend of remote, or office-less, work globally as more people work independently, disconnected from a fixed workplace for indefinite periods, enabling financially self-sustainable remote workers or digital nomads to work in an exotic location for an extended period.

This embodies "slow tourism," mitigating the health and environmental risks of revolving-door mass extractive tourism, lowering the carbon footprint of frequent long-haul flights; and reducing the ecological footprint of the tourism sector as a whole. At the same time, these new product offerings enable access to new customers in existing or new source markets—and crucially, retain foreign exchange revenue to build local value and linkages throughout the economy, rather than allowing outflows of vital tourism revenues abroad.

In exchange, destinations offer attractive accommodation, facilities, a variety of cultural, adventure, nature-based activities, and high-speed Internet connections. There is also the potential of enhanced trade, investment, and economic benefits flowing from such measures, presenting a path for SIDS to mitigate the competitive disadvantage of being remote from major source markets, as well as offsetting other trade disadvantages.

The Way Forward for CSS Tourism

The ongoing uncertain trajectory of the pandemic, exacerbated by successive waves and the emergence of variants of COVID-19, new outbreaks in the Caribbean region in the first few months of 2021, and uncertainty about vaccine supply and distribution, makes restoration of normal tourism patterns unpredictable. For the immediate future, a **key component of economic recovery in CSS will be consistent implementation of vaccination programs; however, this depends largely on supplies reaching smaller developing economies**.[10]

Nevertheless, CSS are adopting proactive measures and strategies to lay the basis for sustainable, resilient, future-proofed, and regenerative recovery of their tourism sectors, suitably flexible and agile to adapt to ongoing travel disruptions and evolving health and vaccination protocols. In building recovery strategies to innovate and capitalize on their natural assets, governments can play their part in incentivizing, catalyzing, and entrenching existing efforts to ensure the right kinds of sustainable, regenerative, and circular economic recovery, rather than relying on ad hoc, bottom-up approaches.

There is recognition of the need for post-COVID-19 investments and financing to pivot toward resilient, low-carbon, and circular economy recovery strategies. The devastation to the sector wrought by the pandemic has nudged international financial institutions and donor agencies closer to recognizing the economic value and potential of the tourism sector, in particular due to its cascading impact across multiple sectors, communities, and economic activities.

Innovative, circular tourism strategies could be the linchpin to unlock critical investment for the sector and enhance the global trade and investment competitiveness of CSS, including in complementary sectors and activities.

"CSS are adopting proactive measures and strategies to lay the basis for sustainable, resilient, future-proofed, and regenerative recovery of their tourism sectors, suitably flexible and agile to adapt to ongoing travel disruptions and evolving health and vaccination protocols."

[10] Recognizing the need to restore tourism's sectoral competitiveness, the United Nations and the World Trade Organization have called for ensuring SIDS priority access to COVID-19 vaccinations, given the small population size and limited cost compared to the potential benefits of restarting tourism and its attendant value chain activities and socio-economic spillovers.

RISING PROTECTIONISM SIGNALS VALUABLE LESSONS HAVE BEEN FORGOTTEN

By Per Altenberg

Per Altenberg is a Senior Adviser at the National Board of Trade, the Swedish government agency responsible for issues relating to foreign trade, the internal market and trade policy.

Five years ago, the Swedish National Board of Trade (Kommerskollegium) published a report that mapped protectionism worldwide and across different modes of trade: trade in goods, trade in services, foreign direct investment (FDI), data flows, and trade-related movement of people. The idea was not to add another measure of protectionism but to synthesize available evidence to provide a comprehensive picture of the state and direction of modern protectionism. It also sought to separate the monitoring of protectionism from political considerations as much as possible.

In 2016, we observed worrying signs that protectionism was on the rise.[1] Tariffs on goods, which had been on a downward trajectory in the last part of the 20th century, had levelled out in the first part of the 21st century.

We saw as one potential explanation for this trend the fact that countries maintain tariffs to use them as bargaining chips in trade negotiations. And because these (multilateral) talks were never concluded, the paradoxical consequence was that 21st-century trade negotiations might have prevented rather than promoted tariff liberalization.

For many non-tariff barriers, we observed an increase during the period leading up to 2016. Countries progressively resorted to discretionary and non-transparent measures instead of traditional, transparent, and well-regulated trade barriers such as tariffs. Developments with respect to subsidies, domestic content requirements, and restrictions on public procurement were viewed as especially concerning.

New restrictions on data flows and the risk of a backlash against the movement of people exacerbated a situation that was seen as troublesome back in 2016.

Among the positive trends we observed five years ago were a steady reduction in agricultural support in Organisation for Economic Co-operation and Development (OECD) economies, as well as reduced barriers to FDI and services supplied through local establishment (as opposed to cross-border trade).

[1] https://www.kommerskollegium.se/globalassets/publikationer/rapporter/2016/publ-protectionism-in-the-21st-century.pdf

Approaches to Protectionism

Approaches to protectionism vary widely among international institutions and independent analysts. Although there is no consensus on the definition of the term, all surveyed institutions (the World Trade Organization [WTO], the OECD, the World Bank, Global Trade Alert, etc.) highlight two core elements: (1) discrimination against foreign economic operators and (2) trade restrictiveness—that is, whether a measure restricts trade more than necessary to achieve legitimate policy purposes. For a comprehensive overview of different approaches to protectionism, see pp. 8–11 in Kommerskollegium's 2016 publication Protectionism in the 21st century.

The Kommerskollegium's view is that a discrimination approach most appropriately frames issues related to protectionism. It combines normative legitimacy (non-discrimination is a central WTO legal principle) with practical application (it does not require advanced quantitative analysis). In addition, intent is implied whenever foreign economic operators receive less favourable treatment than domestic commercial interests.

The 2016 report was not a one-off project, however, and the Kommerskollegium has continued to monitor protectionist trends using the same metrics. Five years later, it's therefore possible to take stock and evaluate the latest trends. Suffice to say, the situation has not improved. Starting again with traditional tariff measures, the trend observed in 2016 continues.

Still no Meaningful Tariff Liberalization

"It has now been two decades since the world saw any meaningful tariff liberalization."

It has now been two decades since the world saw any meaningful tariff liberalization. In fact, for high-income countries, the trendline plotted by the data we use to track tariff levels (United Nations Conference on Trade and Development's [UNCTAD's] TRAINS database) suggests a small increase between 2007 and 2019. While least developed economies have continued to liberalize tariffs, albeit at a reduced pace, the trend has been flat for at least a decade among developing countries that are WTO members.

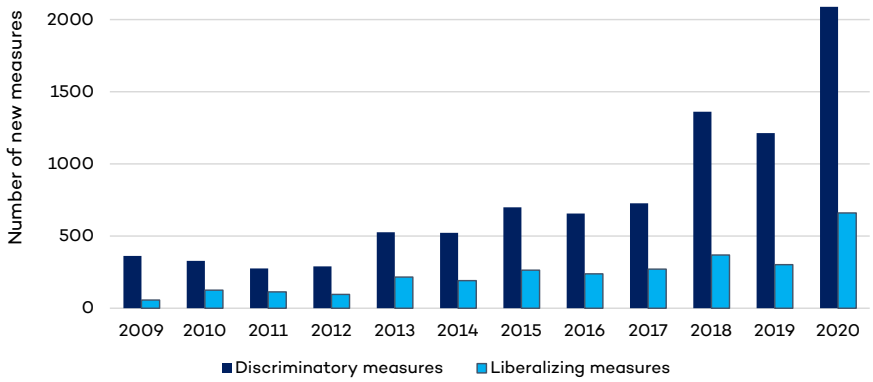
It is important to note that these figures do not yet take into account tariff changes in 2020. Global Trade Alert data regarding the *number* of tariff policy changes in 2020 indicate that tariff changes were predominantly liberalizing in nature last year. The metric also doesn't take into account safeguards, antidumping duties, and other measures under the U.S.–China trade war. For an overview of the effects of these measures, see Peterson Institute (2021).[2]

[2] Bown, C.P. (2021, February). *The US-China trade war and Phase One Agreement*. Peterson Institute for International Economics. https://www.piie.com/sites/default/files/documents/wp21-2.pdf

Non-Tariff Barriers Are on the Rise

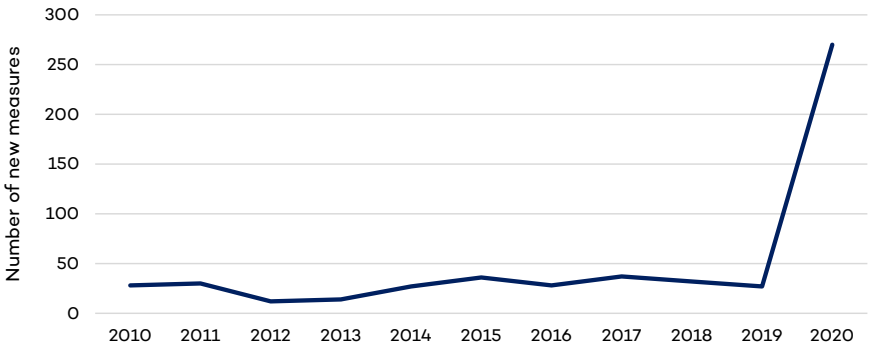
We mainly rely on Global Trade Alert data for non-tariff barriers. Trends that we identified as worrying in 2016 have accelerated since then (see Figure 1). The sharp rise in 2020 is mainly explained by subsidies and export restrictions. Export restrictions have exploded during the COVID-19 pandemic (Figure 2) and now represent but the latest of many protectionist challenges that the world faces.

Figure 1. Discriminatory vs liberalizing measures, 2000–2020
Number of new measures registered by the end of each year



Source: Global Trade Alert

Figure 2. Export restrictions, 2010–2020
Number of new discriminatory measures introduced globally each year



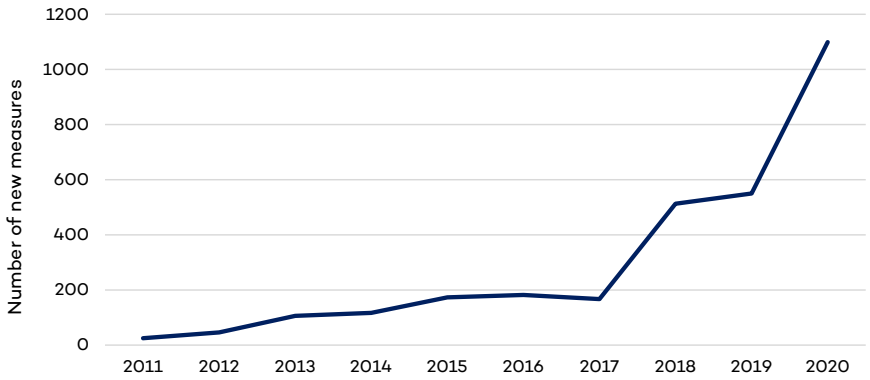
Source: Global Trade Alert

For subsidies, the upward trend has continued over the whole period but accelerated again in 2018 (Figure 3). For discriminatory government procurement measures, it appears that the upward trend observed in 2016 gained traction again in 2018. Similarly, trade-related investment measures rose sharply in 2017 and 2018.

Figure 3. Domestic subsidies, 2011–2020

Not including export subsidies

Number of new measures registered by the end of each year



Source: Global Trade Alert

Services and Digital Trade Face More Curbs

For barriers to trade in services, we rely on the OECD Services Trade Restrictiveness Index (STRI). This index has existed for seven years, which allows the OECD to track developments over time.

Until 2018, most regulatory changes affecting services trade were liberalizing in nature. But in both 2019 and 2020, a majority of new measures restricted trade. The OECD concludes in its latest survey of STRI policy trends that "regulations have been tightening in recent years with a notable acceleration in 2020 compared to 2019."[3] In fact, "the global regulatory environment became more restrictive in 2020 across all services sectors covered by the STRI."

In particular, regulation related to mode 3, i.e., service trade via commercial establishment, was negatively affected. According to the OECD, the pandemic may have acted as a catalyst in some of these cases, but several tightening measures were already planned before the crisis.

A similarly negative trend has hit digital services. The OECD recorded almost 60% more restrictions than liberalizing measures in 2014–2019.[4] In fact, not a single liberalizing measure was recorded for digital service in 2018 and 2019.

This negative trend was interrupted in 2020, however, as an equal number of liberalizing and restrictive measures were introduced.

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[3] Organisation for Economic Co-operation and Development. (2021). *OECD services trade restrictiveness index: Policy trends up to 2021*. https://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-policy-trends-2021.pdf

[4] Organisation for Economic Co-operation and Development. (2020). *OECD services trade restrictiveness index: Policy trends up to 2020*. https://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-policy-trends-up-to-2020.pdf

According to the OECD,[5] the pandemic probably contributed to this shift "as governments have been eager to support efforts by companies to accommodate remote working and expand online operations."

According to UNCTAD data, the positive trend that we saw in 2016 with respect to FDI has largely continued since then. While investment screening measures have increased in recent years, liberalizing policy changes still typically outnumber restrictive policy changes in national investment policies by at least a factor of three.

"When we take stock after five years of monitoring protectionism, the picture that emerges is bleak."

"Of particular concern is the risk that protectionism delays the digital transformation and the transition to a carbon-neutral economy and/or that they are restricted to rich countries."

Protectionism Trends Paint a Bleak Picture

When we take stock after 5 years of monitoring protectionism, the picture that emerges is bleak. Even without considering most measures under the U.S.-China trade war, the trends we saw emerging in 2016 have continued and, in some cases, accelerated.

Ultimately, measures that increase the cost of cross-border commercial transactions risk hurting consumers through higher prices—particularly the poor, whose consumption basket is affected more by the price of traded goods and services. These measures also mean less competition, lower productivity, and reduced labour demand in both developed and developing countries.

The race to pull up the drawbridge means that we are backtracking on the objectives set out in the 1994 Marrakesh Agreement establishing the WTO, including on sustainable development objectives. Of particular concern is the risk that protectionism delays the digital transformation and the transition to a carbon-neutral economy.

Finally, a key consideration concerns the impact of protectionism on governance and institutions. Historically, good governance considerations meant that the General Agreement on Tariffs and Trade sought to curb trade measures that allocated market access through discretionary decisions by public servants (e.g., banning quantitative restrictions, requiring transparency, and limiting non-automatic licences). By contrast, tariffs declared in advance and published openly were allowed.

The latest trends signal that these important historical lessons are increasingly forgotten. In the future, therefore, priority should again be given to restricting discretionary and non-transparent trade policy measures.

[5] OECD, *ibid* Note 3.

IS INDIA READY FOR AN ELECTRIC VEHICLE REVOLUTION?

By Tom Moerenhout

Tom Moerenhout is a Senior Associate with IISD's Global Subsidies Initiative.

"Almost 97.5% of all electric vehicles sold in India were two-wheelers, indicating an especially strong market in the two- and three-wheeler segment."

Electric vehicles (EVs) are revolutionizing the world of road transport. The global EV market grew 43% annually on average over the last five years, and the worldwide automobile market penetration rate of EVs stood at about 2.6% in 2019.

This is expected to explode during the coming decade.

Many COVID-19 recovery packages in countries including China, Germany, France, and Canada, as well as the newly proposed plan in the United States, focus heavily on EVs. Deloitte predicts that annual new sales of EVs will top USD 30 million by 2030.

To date, India lags behind other key markets such as China, Europe, and the United States. The global EV stock reached 7.2 million units in 2019, of which 47% were in China, 25% in Europe and 21% in the United States. The rest of the world accounted for only 600,000 units, with just 170,000 sold in India.

But EVs are of great interest in India. The electrification of road transport serves multiple purposes. It is a green industrial policy that supports a post-pandemic economic recovery. It is intended to reduce oil imports and strengthen energy security. And it is central to reducing air pollution and mitigating climate change. It is a central component of net-zero ambitions worldwide and an important carbon emission reduction measure, second only to greening power sectors.

Those objectives feature strongly in India's push to electrify transport.

While less than 0.5% of Indian car sales in 2019 were EVs, the level of stock here is not the right indicator by which to judge the country's readiness or interest. India sold 69,000 units in 2017–2018 and about 143,000 units in 2018–2019. This indicates a strong growth rate that is likely to accelerate in the next years. Almost 97.5% of all electric vehicles sold in India were two-wheelers, indicating an especially strong market in the two- and three-wheeler segment.

The national government and state governments have adopted several encouraging policies since the start of the pandemic. Nationally, for example, the government has incentivized the deployment of e-buses and charging stations. On the state level, Telangana has exempted the first 200,000 two-wheeler EVs from road tax and registration fees, while Gujarat will offer government subsidies for students purchasing two-wheeler EVs, and rickshaw drivers and self-employed people buying three-wheeler EVs. In 2020, Delhi also launched a progressive EV policy including purchase incentives based on battery range and category.

These measures are promising, but need more streamlining and coordination between policies from the central government, state governments, and local (city) governments.

"To truly improve EV adoption and India's role as a value chain participant, the government cannot rely solely on subsidies; it will also need to attract more private investment to the country."

Suitable Policy Framework and Incentives Are Needed

To truly improve EV adoption and India's role as a value chain participant, the government cannot rely solely on subsidies; it will also need to attract more private investment to the country. The good news is that there are positive signs of investor interest. Just last year, Tesla announced the opening of a factory in Karnataka in southwest India, and venture capitalists are expected to invest more than USD 300 million in EV companies across the country.

This, however, pales in comparison to global investment in EVs.

Of known automaker investment plans before the pandemic, at least USD 300 billion was earmarked for EV investment in the next 5 to 10 years. More than 45% of that budget was intended for operations in China, with most of the remainder divided among Germany, the United States, South Korea, Japan, and France. To become a major EV investment destination, India must create the right policy framework and incentives.

It has started doing so with the government's Faster Adoption and Manufacturing of Electric Vehicles scheme, or FAME. The program, launched in 2015, aimed both to promote EV adoption and to incentivize manufacturers to build EVs in India. In the first phase of FAME, the government provided USD 130 million in subsidies to support the purchase of electric two-wheelers and three-wheelers and hybrid and electric cars and buses. The first phase was generally considered a success as far as sales are concerned.

FAME's second phase was a considerable upgrade to USD 1.4 billion of EV subsidies, of which about 85% was earmarked for purchasing subsidies and 10% to charging infrastructure. It started in 2019 and was intended to run until 2022.

A core component of this phase was again to accelerate local manufacturing. Two years in, however, the results are not what had been anticipated. By early 2021, only about 10% of the EV deployment target for Phase 2 had been reached.

The Society of Manufacturers of Electric Vehicles said this was because of a slower evolution of the domestic component manufacturing market and regulatory requirements for fiscal incentives that keep EV costs too high. Additionally, an uncertain medium-term regulatory environment and the lack of affordable finance continue to deter private investment.

As a result, the Indian EV revolution is not yet at cruising speed, and policy priorities were moved to deployment and investment ahead of local manufacturing requirements. The government also launched a production-linked incentive scheme to encourage companies to start manufacturing EV batteries locally.

"The Indian EV revolution is not yet at cruising speed and policy priorities were moved to deployment and investment ahead of local manufacturing requirements."

An updated analysis of investor, trade, and skill gap barriers is needed to tweak the regulatory environment in a way that facilitates such deployment and value chain investment. This process could also be the perfect moment to kickstart policy coordination and design related to end-of-life EVs, particularly with regard to urban mining and EV battery repurposing and recycling.

India Can Play a Key Role in EV Battery Recycling

In terms of end-of-life EVs, India is also not yet prepared. In all fairness, few major players are.

About 70% of hazardous waste in global landfills comes from e-waste. Just 94,000 metric tons of lithium-ion batteries (LIBs) were recycled globally in 2019, most of them from portable consumer electronics. In the next decade, however, EV batteries will start flooding the end-of-life battery market. The World Economic Forum forecasts that for half of those EV batteries to be recycled by 2030, recycling capacity would need to grow by a factor of 25.

Currently, however, the EV battery recycling industry suffers on different levels, from profitability linked to relatively cheap primary raw material costs, to changing chemical compositions of EV batteries and inefficiencies in the recycling process. While China has specific guidelines on removing, discharging, disassembling, and storing used EV lithium-ion batteries, the other major players—i.e., the United States, Europe, and Japan—still struggle with a regulatory framework that would facilitate profitable recycling.

Reassuringly, the number of patents in EV battery recycling has increased dramatically in the last 10 years, showing the potential for innovation.

With the right incentives and policy framework, India can leapfrog some EV battery recycling barriers and become a major player within the next decade. The potential is huge, with a global market expected to surge to 705,000 end-of-life LIBs by 2025 and to 9 million by 2040—most of which will be EV LIBs.

Like China, India has a major EV growth market and would thus be able to count on a reliable supply of end-of-life batteries in the future. Unlike China, India does not have global supply chains for primary materials such as lithium and cobalt, and so urban mining and recycling are also needed for India to become a large-scale EV battery manufacturer.

The first stages of EV LIB recycling are also barely automated and thus require a lot of manual labour. Here, too, India could have a

"EVs are set to transform global road transport, and India will be a colossal market for deployment. It is both logical and necessary that India also seeks to become a manufacturing hub that can contribute to both EV value chains and battery recycling."

comparative advantage compared to other major players since it has a large population and lower labour costs compared to Western countries.

India's Government Has Its Work Cut Out

The success of circular economy policies is not guaranteed, however. It took China a decade of regulatory development to become the market leader in LIB recycling.

India's government has work to do—from improving regulations related to battery collection, transport, and storage, to coordinating training programs to handle batteries; from crafting labelling and traceability requirements to clarifying contractual and ownership models; and from improving extended producer responsibility to facilitating clustering and joint ventures that can drive efficiencies and cost reductions.

It is clear that EVs are set to transform global road transport, and India will be a colossal market for deployment. It is both logical and necessary that India also seek to become a manufacturing hub that can contribute to both EV value chains and battery recycling.

To do so, however, the government needs to analyze barriers and adjust its regulatory and institutional frameworks to accommodate those barriers and attract private investment on a larger scale.

LATIN AMERICAN TRADE COALITIONS LOOK AHEAD TO POST-COVID FUTURE

By Sofia Baliño

Sofia Baliño is the Communications and Editorial Manager for IISD's Economic Law and Policy program.

"Across Latin America, the various country groupings that govern economic relations on the continent and abroad are looking ahead to cementing new trade relationships and deepening existing arrangements."

Across Latin America, the various country groupings that govern economic relations on the continent and abroad are looking ahead to cementing new trade relationships and deepening existing arrangements—especially as several of these regional coalitions reach some milestone moments. These efforts come as the region continues to grapple with the economic and health fallout from COVID-19, compounded by sluggish vaccination rates in many countries and painfully high death tolls and hospitalization rates.

According to the International Monetary Fund, Latin America's contraction in terms of economic growth was the worst seen across world regions, at 7% last year. This year's growth rates also look relatively bleak compared to those of other countries. The role trade plays in the recovery and how that happens will be watched closely in the months to come.

A January report by the United Nations Economic Commission for Latin America and the Caribbean says regional exports and imports suffered severe losses last year, at 13% and 20%, respectively.

A series of regional trade coalitions have emerged over the past several decades in South and Central America. Some are relatively new, such as the Pacific Alliance, which launched in 2011 and counts Chile, Colombia, Mexico, and Peru as full members. Others have a storied history, with Argentina, Brazil, Paraguay, and Uruguay now counting 30 years as members of the Southern Common Market, known more commonly as Mercosur in Spanish and Mercosul in Portuguese. The Comunidad Andina, or Andean Community, brings together Bolivia, Colombia, Ecuador, and Peru.

Many of these initiatives have looked abroad to build region-to-region or region-to-country ties. This article provides a brief overview of recent developments in these areas and current indications of where they will go next.

Given the range of coalitions in the region, this article focuses primarily on Mercosur and the Pacific Alliance, with a brief section on the Andean Community, while noting that the Caribbean Community, the Organization of American States, and other groupings are important areas for future updates.

Signs of an EU–Mercosur Revival?

One of the major integration processes involving Latin America has been the long-running effort to clinch an association agreement (which includes a trade chapter) with the European Union.

These efforts kicked off in 2000, only to face several setbacks and periods of prolonged delays. Although the two regional coalitions announced that they had reached an agreement in principle in 2019, efforts to finalize the legal texts and move toward signature and

"Lately, the spectre of the EU–Mercosur trade talks has re-emerged, even as the potential entry-into-force of the agreement remains a distant prospect."

"The need for securing better assurances in the [Mercosur] accord against deforestation of the Amazon rainforest has been a major ask by some EU member states."

ratification have since advanced little, while new hurdles have arisen.

Lately, the spectre of the EU–Mercosur trade talks has re-emerged, even as the potential entry-into-force of the agreement remains a distant prospect given internal differences among EU member states and with the European Commission over how to proceed and when. EU officials tout the agreement as a potential game-changer for the European market once these steps are complete.

"We are the first partner to conclude an agreement with Mercosur," EU Executive Vice-President Valdis Dombrovskis said in late April. "This gives us substantial first-mover advantage in the fifth-biggest economy outside the EU."

Dombrovskis noted, however, that while the agreement's chapter on trade and sustainable development is "the most advanced" that Brussels has developed with an external partner, the EU will need to see "meaningful engagement" from Mercosur on climate and environmental issues to show that it can put its commitments into practice. Doing so would be essential for the ratification process to move ahead in Europe, he added.

The Mercosur countries are open to adding an "instrument" that would cover topics such as deforestation in further depth, Dombrovskis said, with talks on what this instrument will look like underway as of this past December.

The need for securing better assurances in the accord against deforestation of the Amazon rainforest has been a major ask by some EU member states. For example, France says it will not approve any such agreement with the Mercosur bloc without them.

French officials told the German broadcaster *Deutsche Welle* in May 2021 that other EU member states, such as Austria, Belgium, and the Netherlands, are of a similar view, given the impact that the destruction of the rainforest would have on climate change and biodiversity. According to the Deutsche Welle report, Paris has also called for improved supply chain traceability, especially with plant and animal products, to make it easier to ensure that Europe-bound imports from the Mercosur countries comply with food safety and health requirements.

Other EU member states, such as Spain, have asked the European Commission to press ahead with the Mercosur accord.

Among the other rumoured sticking points in the EU–Mercosur talks are the long-standing concerns over agricultural competitiveness, given the importance of the farm sectors on both sides of the Atlantic. Brazilian President Jair Bolsonaro was recently quoted as criticizing France and other EU member states for blocking progress on the accord out of concern for what a glut of raw material imports

from the Southern zone would mean for European competitors.

Aside from the EU process, the Mercosur bloc is also negotiating trade deals with Canada, Singapore, and South Korea.

After Its First Decade, Pacific Alliance Takes Stock of Progress

The neighbouring Pacific Alliance celebrated its 10-year anniversary in May, giving leaders an opportunity to take stock of their efforts and what might come next in the initiative.

When Chile, Colombia, Mexico, and Peru set up the alliance in 2011, they agreed to focus on "free movement of goods, services, capital, and people," along with tackling socioeconomic inequality, improving social inclusion, and fostering a platform for cooperation among their countries (plus other objectives).

"Negotiations to incorporate four additional countries as associate members of the Pacific Alliance have been underway since June 2017 and have not yet concluded. Those countries negotiating associate member status are Australia, Canada, New Zealand, and Singapore, with the latter slated to become the first full-fledged associate member."

Three years later, they began working with the Mercosur coalition to connect their two groupings, despite their varying economic models and integration approaches. They have had a related "plan of action" in place since 2018. In parallel, they sought to integrate other countries from different world regions into their alliance through various types of membership, namely associate and observer members.

Associate members would have formal, binding trade agreements with the bloc. Observer members would be able to take part in alliance meetings upon invitation and, if they have trade agreements with at least two of the four alliance members, can request to negotiate associate status. The number of observers currently stands at nearly 60 countries from a range of world regions.

Negotiations to incorporate four additional countries as associate members of the Pacific Alliance have been underway since June 2017 and have not yet concluded. Those countries negotiating associate member status are Australia, Canada, New Zealand, and Singapore, with the latter slated to become the first full-fledged associate member after clinching an "agreement in principle" earlier this year.

The move to bring on these associate members would expand the alliance's regional reach, as well as its subject matter coverage. These associate member agreements, once completed, will build on the existing protocol for the alliance's full, founding members. They would cover 24 areas, spanning from rules of origin, gender, and small and medium-sized enterprises to environment, labour, and intellectual property rights.

At a presidential summit held virtually in May, leaders from Chile, Colombia, Mexico, and Peru set out their respective aspirations for the alliance over the coming years, based on the achievements to

date. Among these were deeper ties with the neighbouring Mercosur coalition and fostering greater trade flows within their own grouping. Other issues they raised were the role of the circular economy, as well as increased participation of women and young people in trade and employment. The role of the digital economy in boosting trade and growth was also identified as a priority.

Andean Community Update

Unlike the Pacific Alliance, the Andean Community has a much longer history, with the process to develop this type of coalition dating back to the late 1960s and cementing itself in the late 1990s.

Notably, the members of the Andean Community overlap with the two above-mentioned groups. Colombia and Peru are also Pacific Alliance members, while Bolivia has engaged in a long process toward eventually joining Mercosur. Three of the Andean Community's members have clinched a trade deal with Mercosur—with the notable exception being Peru—that dates back to 2004.

Among the most recent developments from the Andean Community was news that it had endorsed a new migration statute that would make it easier for tourist travel across the bloc, along with facilitating "temporary residence" of citizens from Andean Community countries in other countries from that coalition. It also clarifies the pathway to permanent residence after that two-year temporary residency concludes. Andean Community officials have welcomed the move as a vital step toward cementing the regional partnership.

NEWSROOM

APEC Economies Agree to Step Up Distribution, Flow of COVID-19 Vaccines

Asia-Pacific Economic Cooperation (APEC) trade ministers have agreed to expedite the flow and distribution of vaccines and other vital medical supplies to combat the coronavirus pandemic. They also promised to work "proactively and urgently" to support text-based discussions at the World Trade Organization (WTO) to waive intellectual property protections on COVID-19 vaccines.[1]

The ministers, who met virtually on June 4–5, said "bold action" was needed in three areas: to use trade as a tool to respond to the pandemic, to support a rules-based multilateral trading system, and to ensure that "the economic settings in each of our economies enable trade and investment to become driving forces for our long-term economic prosperity." Specifically, they agreed to "prioritize work to identify and subsequently consider removing unnecessary barriers to trade in services, particularly those services that expedite and facilitate the flow of essential goods."

[1] See related brief, this edition.

The 21 APEC economies[2] did not, however, commit to removing or lowering tariffs. While average APEC tariffs on vaccines are low, at around 0.8%, tariffs are higher on other products that are important in the vaccine supply chain. Tariffs on alcohol solutions, freezing equipment, packaging and storage materials, vials, and rubber stoppers average more than 5% and can be as high as 30% in some APEC countries.

Members of the bloc also said in a stand-alone statement on COVID-19 vaccine supply chains that "while WTO rules permit export restrictions or prohibitions in certain circumstances, we emphasize economies who adopt such measures with respect to COVID-19 vaccines and related goods will evaluate their ongoing necessity as COVID-19 conditions change, in order to ensure they remain targeted, proportional, transparent, temporary, and do not create unnecessary barriers to trade. We call on other WTO members to exercise equal restraint."

Many health experts consider trade barriers hindering the import and export of the vaccines as one of the biggest factors preventing more inoculations in developing countries.

APEC also reiterated its commitment to creating a Free Trade Area of the Asia-Pacific and called for a "comprehensive and meaningful agreement" to reduce harmful fishing subsidies by the end of July. Ministers said that one of the most significant contributions the WTO can make to underpin its credibility as a forum for negotiating new rules and to safeguard natural resources is the successful conclusion of fisheries talks this year. The WTO's ministerial conference is scheduled for November 30 to December 3.

EU–U.S. Joint Tech Council—Created to Counter Chinese Influence?

The United States and the EU have launched a joint technology and trade initiative to develop new global trade standards for emerging technology, promote democratic values online, and support collaboration on cutting-edge research and development. Some say the initiative was designed to counter China's rising influence in the tech sector, where it has made huge public investments aimed at creating an internet economy that is controlled by the state.

The creation of the U.S.–EU Trade and Technology Council on June 15 means that "democracies and not anyone else—not China or other autocracies—are writing the rules for trade and technology for the 21st century," U.S. national security adviser Jake Sullivan told journalists.

EU Trade Commissioner Valdis Dombrovskis, who will co-chair the council along with EU Competition Commissioner Margrethe Vestager, said the initiative "gives us tools to address threats such as unfair competition and the misuse of new technologies."

Besides creating the council during his European tour, U.S. President Joe Biden urged the G7, the North Atlantic Treaty Organization and now the EU to take a tougher stance on China. Indeed, Biden also announced a truce in the long-running trade dispute over Airbus and Boeing subsidies during his stop in Brussels, saying it was time for the United States and the EU to put aside the fight and focus together on the growing trade threat posed by China.

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[2] Most members of the Ottawa Group (Australia, Canada, Chile, Japan, Korea, Mexico, New Zealand, and Singapore) are also members of APEC. The Ottawa Group has urged WTO members to boost cooperation and work to enhance global rules to facilitate trade in essential medical goods. See https://trade.ec.europa.eu/doclib/press/index.cfm?id=2215&title=Ottawa-Group-proposes-a-global-Trade-and-Health-Initiative

"Both the U.S. and EU agreed to suspend our tariffs for five years, and we committed to ensuring a level playing field for our companies and our workers. Significantly, we also agreed to work together to challenge and counter China's non-market practices in this sector that give China's companies an unfair advantage," Biden said.

Beijing has accused Washington of poisoning China's ties with the EU and urged the bloc to maintain its independence.

"The United States is engaged in ideological line drawing and a small circle against China, but the interests of the United States and the European Union are different," Chinese foreign ministry spokesman Zhao Lijian was cited as saying. "The European Union is independent, and relevant European countries will not tie themselves to the American anti-China chariot."

New Atlantic Charter Renews 'Special' U.S.–British Relationship

The new Atlantic Charter signed by U.S. President Joe Biden and British Prime Minister Boris Johnson on June 10 cements trade, travel, and tech ties between the two countries. It also renews the "special relationship"[3] between the United States and the United Kingdom, speaking to commonalities between the longtime allies that may have been lost in recent decades.[4]

The renewed charter reflects the shifting threats facing the world 80 years after the original was signed during World War II, such as cyberattacks and climate change.

The agreement, signed during the first face-to-face meeting between Biden and Johnson at the G7 summit in Cornwall, England, has eight goals.[5] However, it prioritizes the self-determination of sovereign nations, ensuring a fair and open global trading system and the reduction of trade barriers, the disarmament of hostile nations, and a united drive to ensure better economic and social conditions for all people.

"Like the original version … the new Atlantic Charter seeks to rally the West at a time of global crisis," Stewart M. Patrick, director of the International Institutions and Global Governance Program at the Council on Foreign Relations, wrote in his weekly column for World Politics Review. "Whether it has a similar, enduring influence is likely to depend more on domestic U.S. political developments than on global geopolitical trends."

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[3] In 1946, Winston Churchill was the first person to describe the alliance between the two countries as being something "special." Over the years, the phrase itself never left the public lexicon. The United States and Britain have allied together during many conflicts including the two World Wars, the Korean War, the Cold War, the Gulf War, and the War on Terror. The leaders of both nations have historically been considerably close, and public opinion in both countries has largely aligned with this political characterization.

[4] For instance, U.S. President Dwight Eisenhower refused to support the British invasion of the Suez Canal and British Prime Minister Harold Wilson came under enormous pressure from the United States to send troops to Vietnam, a directive he repeatedly ignored. More recently, following a strong partnership during the second Gulf War, ties between the two countries became strained over foreign policy issues.

[5] The new Atlantic Charter commits the two nations to defend the principles, values, and institutions of democracy and open societies; strengthen and adapt the institutions, laws, and norms that sustain international cooperation; remain united behind principles of sovereignty, territorial integrity, and peaceful resolution of disputes; harness and protect the countries' innovative edge in science and technology; affirm the shared responsibility to maintain collective security and international stability, including against cyber threats; and to declare the countries' nuclear deterrents to defend the North Atlantic Treaty Organization; continue building an inclusive, fair, climate-friendly, sustainable, rules-based economy; prioritize climate change and biodiversity protection in all international action; and continue collaborating to strengthen health systems and advance health protections.

Its signing came as many question the value of global economic rules and amid an increase in protectionist trade barriers.

The original Atlantic Charter was "the genesis of several remarkable achievements of multilateral international economic rule-making, including the General Agreement on Tariffs and Trade and Bretton Woods institutions," wrote Hunter Nottage, trade law manager for the New Zealand Ministry of Foreign Affairs and Trade.

After his meeting with Johnson, Biden called the charter a "statement of first principles, a promise that the United Kingdom and United States would meet the challenges of their age and would meet it together." But the U.S. president, who has always opposed Britain's departure from the EU, also warned Johnson not to let Brexit jeopardize peace in Northern Ireland.

John Ross, a senior fellow at the Chongyang Institute for Financial Studies at Renmin University of China, says the new Atlantic Charter signals that "the Johnson government, after Brexit, has decided to attempt to make up for powerlessness in relation to the U.S. by attempting to gain favour by supine agreement to U.S. demands even when these are against the interests of the British people and the British economy. In particular, this means agreement to the U.S. 'cold war' against China."

WTO Chief Hopeful for Deal to Get More COVID-19 Jabs to Developing Nations

WTO Director-General Ngozi Okonjo-Iweala says there is a "pathway" for a global agreement to provide more COVID-19 vaccines to developing countries, even though governments are deeply divided over an effort to endorse a temporary waiver on some of the organization's intellectual property (IP) rights provisions.

South Africa and India, backed by many developing country members, want a temporary waiver of IP rights on COVID-19 vaccines as well as diagnostics, therapeutics, and medical devices. They argue that scrapping these protections will enable poorer countries to manufacture more vaccines, treatments, diagnostics, and other vital medical tools needed to battle the coronavirus—and address the extreme inequity in access to vaccines. The idea for a waiver also benefits from support from the United States, as well as some other advanced economies, though they are still discussing differences on details.

WTO members agreed on June 9 to start formal talks on a plan to boost production of the vaccines and treatments through patent waivers or compulsory licensing deals. Three days later, Okonjo-Iweala acknowledged that while clinching a deal would be tough, "there is a pathway [and] I would very much like to see some form of progress by July."

An initial report on the status of the text-based discussions is expected around July 21–22.

The pharmaceutical industry and many high-income nations fiercely oppose the proposal, saying patents are not the main obstacle to scaling up production. One of the chief concerns about IP waivers is that they could give a shortcut to competitors seeking to acquire expensive technology. Companies also argue that IP relief will not accelerate vaccine manufacturing because materials are scarce, and it can take years to build up capacity from scratch.

Governments opposing the waiver say WTO rules already allow countries to apply for 'compulsory licensing'[6] to override IP during emergencies. Right now, for example, Bolivia is applying to the WTO to use this process so it can manufacture Johnson & Johnson's COVID-19 vaccine. However, compulsory licences are extremely complex and obtaining them takes a great deal of time, according to a group of researchers in the United Kingdom who study patent law.[7]

The Swiss government wants drug companies to secure voluntary licensing deals, as AstraZeneca did with the Serum Institute of India to produce its COVID-19 jabs. Switzerland, along with Britain and South Korea, supports a separate European Commission proposal, which calls for limits on export restrictions, expanded production, and compulsory licensing of the patents in some circumstances—particularly by clarifying that the requirement to negotiate with the right holder of the vaccine patent does not apply in urgent situations such as pandemics.[8]

Some European lawmakers, however, say the Commission's alternative proposal does not go far enough. The European Parliament passed an amendment in early June calling for a temporary waiver of some provisions of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights—the global IP rulebook—in relation to COVID-19 vaccines, treatments, and equipment.

China, France, Russia, and Spain also all support an IP waiver on vaccines. So does the World Health Organization, Pope Francis, and, crucially, the Biden administration. However, the White House is calling for the suspension of vaccine patents only, while South Africa and India (and the European Parliament) want it to cover other COVID-19-related medical products such as therapeutics and personal protective equipment.

"The administration believes strongly in intellectual property protections, but in service of ending this pandemic, supports the waiver of those protections for COVID-19 vaccines," U.S. Trade Representative Katherine Tai said in early May. "We will actively participate in text-based negotiations at the WTO needed to make that happen."

EU to Unveil Planned Carbon Tax on Imports Amid U.S., Japanese Concerns

The European Union is expected to present its proposed carbon border adjustment mechanism regulation[9] on July 14 as the bloc tries to fight climate change and level the playing field for its domestic enterprises.

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[6] Compulsory licences are authorizations given to a third party to manufacture, use, or sell a particular product or use a particular process that has been patented, without the need of the permission of the patent owner.

[7] Thambisetty, S., McMahon, A., McDonagh, L., Kang, H.Y., & Dutfield, G. (2021). *The TRIPS Intellectual property waiver proposal: Creating the right incentives in patent law and politics to end the COVID-19 pandemic* (LSE Legal Studies Working Paper). https://ssrn.com/abstract=3851737 or http://dx.doi.org/10.2139/ssrn.3851737

[8] The EU is a member of the Ottawa Group, which last November proposed a global Trade and Health Initiative urging immediate actions in response to the pandemic, including exercising restraint in using export restrictions, implementing measures to facilitate trade in the areas of customs and services, and improving transparency.

[9] See IISD blog by Nathalie Bernasconi-Osterwalder and Aaron Cosbey on "Carbon and Controversy: Why we need global cooperation on border carbon adjustment" at https://www.iisd.org/articles/carbon-border-adjustment-global-cooperation. The group of WTO members involved in "structured discussions on trade and environmental sustainability" are also discussing border carbon adjustments. See *Sofía Baliño*'s article "WTO Members Assess MC12 Options for Trade, Environmental Sustainability Work" at https://sdg.iisd.org/commentary/policy-briefs/wto-members-assess-mc12-options-for-trade-environmental-sustainability-work/.

The mechanism, announced last year in the European Commission's communication on a Green Deal, aims to protect the EU's domestic industry from carbon leakage.[10] The bloc intends to tax imports based on the greenhouse gases emitted to manufacture them, opening up a new front in the battle against climate change by setting the world's first limits on carbon in traded goods. The commission says it wants to stop polluting industries from shifting production outside Europe to avoid EU emissions limits and then exporting back into the bloc.

Many EU companies that make goods are required to buy permits for the climate-warming carbon emissions produced in the process. That extra cost raises the price of the product and is designed to encourage manufacturers to reduce their emissions. But companies in many other countries—including the United States—don't face the same emissions rules, so imports sold in Europe can end up being cheaper.

The planned mechanism also serves as a policy tool to encourage third-party countries to reduce their greenhouse gas emissions and start regulating carbon emissions.

The Wall Street Journal, citing a draft of the legislation, said European importers would be required to buy certificates covering the carbon content of their imports in certain sectors. The rules would initially apply to heavily polluting industries—steel, aluminum, cement, fertilizers, and electricity—and add other sectors over time. The draft says the rules could come into effect during a transitional period starting as early as 2023 and be fully in force in 2025, the newspaper reported, "though officials say those dates could change in the final proposal."

The draft legislation proposes charging a carbon price based on the European Union's emissions-allowance market, which regulates the bloc's power plants and factories. That price, which would be applied to each ton of carbon dioxide (CO_2) emitted to make an imported good, has climbed to more than EUR 50 (USD 61) a metric ton of CO_2 from about EUR 30 earlier this year, as traders anticipate that the bloc will ratchet down emissions caps.

The United States and Japan have already voiced concern about the planned tax. Special Presidential Envoy for Climate John Kerry told the *Financial Times* in March that the tax adjustment should be a "last resort" and that it had "serious implications for economies, and for relationships, and trade." And Politico cited a Japanese government spokesman as saying at the G7 meeting in June that the EU's plans were "one of the quite controversial, heated discussions among the concerned parties."

A 2016 study suggested that an EU border carbon tax would reduce imports from major trading partners by between 0.3% for Brazilian products and 1.3% for those from the United States. Ensuing trade retaliation could cut EU agri-food exports by USD 3 billion, and other European sectors would also face retaliation, the study found.

[10] Carbon leakage happens when goods that would normally be bought locally are instead imported from companies that don't face the same regulations. It also occurs when local firms move their production to another location to avoid having to cut their emissions. They might relocate to another country or, more commonly, shift production to foreign plants. The result is emissions that continue unabated, and those emissions affect the entire planet. A carbon border tax aims to prevent this leakage by imposing the same cost on imports that don't face carbon taxes at home.

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