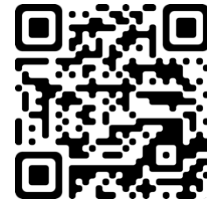


Villars Framework for a Sustainable Trade System

Policymakers Summary

September 2023



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Today's trade system – centered on the World Trade Organization (WTO) but also including the United Nations Conference on Trade and Development (UNCTAD) and the International Trade Centre (ITC) at the multilateral level and many different initiatives at the regional and other plurilateral levels – has come under assault from many directions and for a number of reasons. In this regard, the trade regime stands at a watershed moment – requiring careful understanding of the challenges being posed and the potential for transformative change to better align the system with today's political realities and perceived policy needs. This Report seeks to respond to this need for fresh thinking, careful analysis, and thoughtful reform – with *Villars Framework for a Sustainable Trade System* generated by a broad-based coalition of scholars, researchers, and other thought leaders operating under the banner of the [Remaking Global Trade for a Sustainable Future Project](#).

Why Trade Matters

Trade has long created opportunities for economic specialization based on comparative advantage that provides consumers with access to a wider variety of goods, lower prices, and other benefits – including economies of scale, greater innovation, quality improvements, and protection against supply disruptions. These gains have contributed significantly to the flourishing of humanity over centuries. International trade has thus been an important driver of economic growth, a source of good jobs, and an engine for poverty alleviation and economic resilience. More broadly, international trade and economic integration create a sense of common economic destiny and potential shared prosperity, which tend to encourage cooperative international relations, peace, and greater security.

What's Wrong with the International Trade System

At its best, the international trade system contributes in important ways to uplifting the lives of people across the world and to strengthening economies. But the trade regime cannot hope to optimize its contributions to social welfare, or even to continue those contributions without backlash if it operates in isolation from the broader challenges of

the society in which it exists. In this regard, globalization and trade liberalization have become the subject of pervasive political pushback in many countries. At the core of the critique now widely circulating is the suggestion that the rules and procedures of the WTO have been too narrowly targeted on opening markets and clearing obstacles to international trade, leading to disproportionate benefits to some countries and interests and not others. Many observers perceive this focus as inattentive to the needs of certain countries, micro-, small-, and mid-sized businesses, emerging entrepreneurs, small-scale farmers, and individuals in their roles as workers, and citizens, which might outweigh any gains that they have experienced from trade as consumers.

Other critics fault the current structure of the trade system for ignoring environmental threats and planetary boundaries, including climate change but also the risks arising from a worldwide loss of biodiversity, increased air and water pollution, contamination of the oceans, improper waste disposal, and the despoilment of the land through extractive industries and unsustainable agricultural practices. Yet others highlight the fact that the WTO has not taken seriously its mandate to promote sustainable development (embedded in the Preamble to the 1994 Marrakesh Agreement that launched the World Trade Organization). Simply put, the trade system is widely perceived to have failed to fulfill its potential to address critical environmental issues or to advance progress on the social dimensions of sustainability including inequality, poverty, gender parity, labor rights, and shared public health challenges.

But a sharper critique has also been leveled based on the very fact that the trade regime's capacity to take commerce to ever greater scale risks harming people and the planet if the economic activities it enables are carried out in an unsustainable manner. And indeed, many of the enterprises that have thrived in international trade have business models that entail spillovers of pollution or other harms that undermine progress toward a sustainable future rather than supporting action on climate change and other fundamental challenges such as those highlighted in the UN Sustainable Development Goals (SDGs). To recast the problem in the framework of economics, if the global system permits uninternalized negative externalities to persist with enterprises and states failing to take sufficient account of the social costs of their actions – then the promise of welfare gains to society from trade cannot be assumed.

Remaking Global Trade for a Sustainable Future

The Remaking Global Trade for a Sustainable Future Project seeks to address the full scope of these problems. For the past two years, the Project team has conducted a series of [10 workshops](#) on critical issues at the interface between the trade system and the 21st century [sustainability imperative](#). Each workshop brought together 30-40 issue experts for multiple days of intensive discussion and problem solving – involving in total more than 400 thought leaders from a diverse set of geographic, disciplinary, professional,

and political perspectives. The Remaking Global Trade for a Sustainable Future Project also commissioned over 50 [White Papers](#), seeking to illuminate the critical trade-sustainability tensions and possible paths toward better alignment between the trade regime and a sustainable future. These workshops covered topics like:

- climate change
- elements of a just transition to a clean energy future
- digital and information technology opportunities to promote sustainability
- circular economy
- social dimensions of sustainability including poverty alleviation, inequality, public health, labor rights, worker impacts, gender parity, and indigenous people rights
- difficult-to-decarbonize industries – including engagement of producers in developing countries
- finance, innovation, and investment for sustainable development
- air and maritime transport – with a focus on shipping
- sustainable agriculture and food systems
- oceans and the emerging Blue Economy
- governance and institutional reform of the trade regime

Path Forward

As a result of the tensions highlighted above and the difficulty that the trade system has had over some time in delivering progress on critical issues, it is now widely perceived that the WTO and the trade system more broadly are in danger. It is clear that the trade regime needs fundamental change to meet the needs of the current moment and to be seen as fit for purpose in the decades ahead.

The Remaking Global Trade for a Sustainable Future Project has thus developed a proposed series of reforms – the *Villars Framework for a Sustainable Trading System* presented at a September 2023 gathering of thought leaders in Villars, Switzerland under the auspices of the Villars Institute – designed to revitalize the trade system to make it more sustainable, people-centered, effective, inclusive, transparent, and digital. The reform package recognizes the need to move away from the narrow view of the WTO's role as merely clearing obstacles to trade, to the wider goal of promoting sustainable

development. This shift in emphasis offers the promise of broader public and political support – and thus restored legitimacy and relevance in global governance and the management of international economic interdependence.

New Priorities

In addition to arguing that sustainable development must become the new core mission for the trade system, a further recommendation of the Remaking Global Trade for a Sustainable Future Project centers on the need for the trade system to do its part to deliver the global public goods required to promote a sustainable future across all three pillars of sustainable development: economic, environmental, and social progress.

Proposed Sustainable Trade System Reform Agenda

In support of this reconceptualization of the trade system, the Remaking Global Trade for a Sustainable Future Project team proposes a comprehensive reform agenda for consideration by the WTO Members including the following action items (the full list of which can be found in [Section 12](#) of the Report):

1. Commit to net-zero greenhouse gas (GHG) emissions in international trade by 2050, ensuring that any enterprise permitted to engage in international trade has net-zero GHG emissions across its value chain by 2050 – covering extraction of raw materials, production/manufacturing, shipping, and distribution, as well as the consumption/use and end-of-life disposal of goods
2. Launch workstreams to establish agreed foundations for border adjustment mechanisms that provide scientifically rigorous and equitable underpinnings to ensure internalization of environmental externalities including:
 - measurement protocols for GHG emissions embedded in traded goods
 - processes for gauging the equivalence of climate change policies and strategies and supporting their interoperability to reduce trade frictions
 - new mechanisms for ensuring equity in this process and paving the way for a just transition to a clean energy future
3. Restructure the WTO approach to subsidies based on their sustainability impact
 - go beyond the present focus on whether subsidies are trade-distorting to consider whether they are harmful or helpful to sustainable development
 - ensure that non-protectionist national subsidy programs that enhance sustainable development are permitted

- expand disciplines on sustainability-harming subsidies
4. Establish an inclusive process for setting sustainability standards for traded goods
 - clarify the legality of the importing state's application of process and production method standards designed to promote sustainable development
 - promote international sustainability standards that advance sustainable development in cooperation with responsible specialized entities such as the International Organization for Standardization (ISO), United Nations Environment Program (UNEP), International Maritime Organization (IMO), and the United Nations Framework Convention on Climate Change (UNFCCC)
 5. Create conditions that allow developing countries to thrive in the emerging sustainable development-oriented trade system
 - ensure that new sustainable trade measures are paired with policy initiatives to enable less industrialized countries or vulnerable communities to transition to the new marketplace expectations
 - motivate trade-based investment, trade finance, and technology transfer in developing countries for sustainable development
 - recharter the International Trade Centre as the Sustainable Trade Center with an expanded capacity-building mandate and resources
 - create a Global Sustainable Trade Fund to allocate funds to developing countries for trade-related sustainable development purposes
 6. Identify and promote digital tools and information technologies that can advance sustainable production and engagement by developing countries in e-commerce
 7. Consider the potential for a revitalized sustainable goods/services/technology initiative to eliminate tariffs and other barriers to trade on factors essential to sustainable development
 - based on carefully defined sustainability standards
 - designed to promote expanded and resilient supply chains
 - structured to promote a sustainable private sector in developing nations
 8. Initiate a WTO governance and institutional reform process to:
 - enhance the agility of trade system deliberation and decision-making

- support a more inclusive, people-centered sustainability agenda, including the creation of new processes and mechanisms such as:
 - WTO Trade Policy Reviews that include a sustainability review section
 - Sustainable Development Impact Assessments to ensure full consideration of sustainable development and impacts on marginalized communities in connection with trade agreements and decisions
 - launch of a Sustainable Development Commission made up of independent experts drawn from sustainability fields to assist in evaluating sustainability impacts and supporting WTO dispute resolution
- facilitate new modes of negotiation that reflect the nature of global public goods (going beyond the mercantilist and zero-sum bargaining undertaken in the context of tariff reductions)
- promote inclusiveness and *learning by doing* through existing Member-led initiatives like the Trade and Environmental Sustainability Structured Discussions (TESSD), the Dialogue on Plastics Pollution, and the Fossil Fuel Subsidy Reform Initiatives

While this agenda is ambitious and will take significant processing and discussion to advance, the Remaking Global Trade for a Sustainable Future Project team believes that many of these action items could be advanced at the WTO's 13th Ministerial Conference (MC13) to be held in Abu Dhabi from February 26–29, 2024. Some elements of the reform agenda could be ready for definitive action, while others should be embedded in a commitment to a new set of workstreams designed to operationalize the WTO's sustainable development mandate.

The reform proposals put forward in this Report are meant to launch a conversation and to stimulate discussion and debate. In this regard, the Remaking Global Trade for a Sustainable Future Project team will be conducting extensive outreach over the coming months to get feedback on this preliminary agenda, obtain suggestions about how to refine or reframe the reform proposals, and seek guidance on the political path forward. This process will include questions about who might play a leadership role in delivering the transformative change required to establish a trade system that delivers on the sustainable development mandate and meets the needs of the global community for improved international economic cooperation.