



Task Force 04

**TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH**

## **Fair Rules and Positive Incentives: The Role of the G20 in Building Just and Sustainable Global Value Chains**

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## Abstract

The world's biodiversity is at risk. Climate change is already affecting species and ecosystems worldwide, while high rates of deforestation and environmental crimes pose a persistent threat to biodiversity across various regions. A significant factor contributing to this environmental destruction is the global demand for commodities originating from endangered forests and biomes.

Nevertheless, existing global governance institutions have been unsuccessful in creating a comprehensive global framework that includes multilaterally negotiated socio-environmental rules and requirements to regulate value chains. Consequently, a growing number of countries have enacted legislation with extraterritorial applications to hinder the importation of products linked to deforestation and other environmental crimes. These regulations may disproportionately affect developing countries, especially small-scale producers who could be at risk of exclusion from international value chains due to their inability to meet rigorous requirements without receiving technical and financial assistance.

Against this backdrop, this policy brief examines the role the G20, whose countries represent 85% of the world's GDP and 75% of global trade (Brazil's Ministry of Foreign Affairs, 2023), can play in fostering fair and sustainable global value chains. The brief argues that the G20 should adopt a combination of normative and policy measures to foster international cooperation and multilateral rules to increase value chain sustainability while ensuring consistency with the principle of Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC) and the World Trade Organisation's rules of open, fair, and undistorted trade between nations. It is also recommended that the group develops a 'Fair, Sustainable and Inclusive Value Chains Facility' designed to address the disproportionate effects that unilateral green standards

can have upon developing nations by mobilising financial, technological and technical resources to ensure that these countries have the necessary means to develop and implement national plans aimed at halting and reversing biodiversity loss, focusing on nation-wide supply chain traceability systems, strategies to combat deforestation and environmental crimes, as well as approaches for biodiversity restoration.

**Keywords:** Biodiversity Loss, Value Chains, Common But Differentiated Responsibilities and Respective Capabilities.



## International Landscape of Value Chains Regulation

The G20 Leaders' Declarations have long emphasised the role of the World Trade Organisation (WTO) as the backbone of the multilateral trading system (G20, 2015), as well as reaffirmed the importance of an open, fair, inclusive, equitable, sustainable and non-discriminatory multilateral trading system in fostering growth, job creation, productivity and promoting sustainable development (G20, 2019; 2021).

In the past two years, the grouping's reaffirmation of WTO's rules and principles have been connected to the environmental agenda, specifically to the issue of cleaning up value chains from environmental destruction and its related neoprotectionism concerns. For instance, while supporting the international efforts to keep food supply chains functioning under challenging circumstances, the Bali Leaders' Declaration of November 2022 reiterated the G20's support for "open, transparent, inclusive, predictable, and non-discriminatory, rules-based agricultural trade based on WTO rules." (G20, 2022).

In the following year, the New Delhi Declaration established the commitment to "ensure that trade and environment policies should be mutually supportive, consistent with WTO and multilateral environmental agreements." When addressing the importance of healthy ecosystems for fighting climate change, the G20 leaders committed to scale up efforts to protect, conserve and sustainably manage forests and combat deforestation, also adding that these efforts should take into account local challenges, as well as "avoid discriminatory green economic policies, consistent with WTO rules and multilateral environmental agreements." (G20, 2023).

These statements reflect a growing concern among developing countries regarding legislation with extraterritorial applications introduced by developed nations to prevent the import of products associated with deforestation and other environmental crimes. For

instance, the UK Environment Act 2021 prohibits the importation of raw materials, such as palm oil, cocoa, beef, leather and soy, if they are illegally sourced, in accordance with the laws of the producing country (Department for Environment, Food & Rural Affairs, 2023). On the other hand, the EU Deforestation Regulation - EUDR (European Parliament, 2023), which was approved in April 2023 and will come into effective in December 2024, require companies to conduct strict due diligence to ensure that EU imports of commodities – more specifically, palm oil, cattle, soy, coffee, cacao, timber, and products derived from them, such as beef, hides, leather, chocolate and charcoal – are free from any form of deforestation, regardless of whether this is considered legal according to the laws of producing countries.

Legislation such as these, which are also being considered by countries like the United States (WWF), adopt distinct timeframes, cover different commodities, at-risk biomes, and types of environmental and human rights violations, in addition to establishing varying levels of due diligence and traceability requirements, as well as distinct punishments in case of noncompliance. This means that even for those who are interested in complying, adapting to a broad set of requirements and standards – without, however, receiving adequate incentives or financial assistance – may prove to be costly and challenging, especially for smallholder farmers and small-scale producers (Folly, 2023).

Consequently, a growing number of nations have vocalised their opposition to these measures, be it nationally or via international fora such as the G20, the BRICS and the WTO. For instance, Brazil's ambassador to the EU has referred to EUDR as unilateral, punitive, and discriminatory (Fern, 2023). In addition, in September 2013, a group of 17 developing nations from Latin America, Africa and Asia sent a letter to European authorities expressing concerns related to EUDR:

This regulation disregards local circumstances and capabilities, national legislations, certification mechanisms, their efforts to fight deforestation, and multilateral commitments of producer countries, including the principle of common but differentiated responsibilities. It also establishes an inherently discriminatory and punitive unilateral benchmarking system that is potentially inconsistent with WTO obligations (Brazil's Ministry of Foreign Affairs, 2023b).

Similarly, the Johannesburg II Declaration, adopted at the XV heads of state Summit of the BRICS (Brazil, Russia, India, China and South Africa), states:

We oppose trade barriers including those under the pretext of tackling climate change imposed by certain developed countries and reiterate our commitment to enhancing coordination on these issues. We underline that measures taken to tackle climate change and biodiversity loss must be WTO-consistent and must not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade and should not create unnecessary obstacles to international trade. Any such measure must be guided by the principle of common but differentiated responsibilities and respective capabilities (CBDR-RC), in the light of different national circumstances. We express our concern at any WTO inconsistent discriminatory measure that will distort international trade, risk new trade barriers and shift burden of

addressing climate change and biodiversity loss to BRICS members and developing countries (BRICS, 2023).

Finally, in February 2024, fourteen Latin American countries, released a statement at a WTO Ministerial Conference, noting that the region accounts for 40% of all net food exports globally and expressing concern about:

The restrictive and potentially discriminatory effect on trade of trade-related environmental measures adopted recently by some WTO Members. The adoption of a unilateral approach to address global issues should be avoided, as should the implementation of measures that create unjustified and unnecessary barriers to international trade, and that deepen the global food security and nutrition crisis. We agree multilateral cooperation is important in a context of multiple global environmental challenges (WTO, 2024).

The concerns demonstrate that international cooperation and dialogue are necessary to develop multilateral solutions to ensure sustainable and biodiversity loss-free value chains, while taking into account the principle of CBDR-RC and WTO rules of open and fair trade. Historically, there are precedents of multilateral frameworks that have been developed to tackle a global environmental problem through international cooperation. One such example is the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), which recognises the need for a global approach to the regulation of international wildlife trade that favours multilateral cooperation and

concerted action, while also preserving the right of states to adopt stricter domestic measures to curb illicit practices.

## Recommendations

As a forum that brings together industrialised and emerging economies, the G20 can play a crucial role in promoting sustainable, fair and inclusive global value chains while also addressing neoprotectionism risks and concerns. This can be achieved through a combination of normative and policy measures.

### **Normative measures: shifting the narrative from market closure to positive incentives and partnerships**

Firstly, the G20 can contribute to a global narrative shift, moving away from an approach predominantly focused on market closure and placing greater emphasis on the need for generating positive incentives and partnerships for producing countries to acquire the means to implement and/or improve their own national plans and policies aimed at combating deforestation and environmental crimes, as well as promoting greater transparency and sustainability in value chains. To this end, the G20 Rio Leader's Declaration and the G20 Trade and Investment Ministerial Statement should include a commitment to enhance international cooperation to mobilise the means of implementation, in the form of capacity-building, finance and technology development and transfer, to advance national plans and policies designed to promote the sustainability of value chains, especially in developing countries.

Secondly, the G20 should continue reaffirming the centrality of the WTO in governing a fair, equitable and sustainable trading system, as well as acknowledge the need for the



WTO to exercise a leadership role in developing and arbitrating over multilateral rules intended at enhancing socioenvironmental sustainability in global value chains, while considering the different national circumstances and capabilities.

This would be consistent with the founding charter of the WTO, signed in 1994, which refers to trade as a tool to help countries achieve important policy goals, including the sustainable use of the world's resources. Ever since, the organisation took steps to reconcile trade with environmental protection, including by establishing a Committee on Trade and Environment (CTE) tasked with (i) identifying the relationship between trade and environmental measures, to promote sustainable development, and (ii) making recommendations on possible modifications of multilateral trade system provisions to maintain its open, equitable and non-discriminatory nature (WTO and UN Environment, 2018). Environmental considerations have also been discussed in the scope of other WTO committees, such as the Committee on Technical Barriers to Trade and the Committee on Government Procurement. Moreover, the WTO dispute settlement system has deliberated on cases where environmental protection measures were deemed to be inconsistent with WTO rules. This includes the US Shrimp/Turtle case, which resulted in the United States amending its environmental certification on imports of shrimps, so that it no longer imposed unjustifiable and arbitrary trade discrimination (*Ibid*).

### **Policy measures: empowering the WTO and developing multilateral solutions**

With the crisis of the WTO dispute settlement system due to the paralysis of the WTO Appellate Body since 2019, cases such as this have historically been minimal. Meanwhile, the aforementioned WTO trade and environmental mechanisms have mainly served as a forum for policy dialogue and information sharing, lacking teeth to shape global efforts to develop and harmonise bold environmental standards to govern trade.

Against this backdrop, the G20 should reaffirm its commitment to striving for a fully operational and effective WTO dispute settlement system. More specifically, the Rio Leaders' Declaration and the G20 Trade and Investment Ministerial Statement should emphasise the importance of equipping this system with the necessary tools to allow the Appellate Body to effectively strike a balance between enabling states to implement environmental protection measures and preventing the misuse of such measures for covert protectionism.

Furthermore, the G20 should consider concrete pathways to support the WTO in serving beyond a policy platform to exchange ideas on trade and environmental issues, but act as a 'norm entrepreneur' when it comes to developing common standards and criteria for building more sustainable and CBDR-RC consistent global value chains. This could be accomplished by establishing a "Fair, Sustainable and Inclusive Value Chains Facility", which would convene the G20, the WTO's Trade and Environment Committee, and other pertinent multilateral agencies, such as the United Nations Environment Programme (UNEP) and the United Nations Conference on Trade and Development (UNCTAD). The tasks of this facility could include, among other priorities defined by G20 members:

- Support developing countries in building capacity to develop or improve national plans aimed at halting and reversing biodiversity loss, focusing on nation-wide supply chain traceability systems, strategies to combat deforestation and environmental crimes, as well as approaches for reforestation, conservation and forest recovery of degraded or converted areas;
- Mobilise resources, including grants and concessional finance, to provide the means of implementation (finance, capacity-building and technology

development and transfer) of these national plans without causing or aggravating fiscal crises;

- Develop a workplan to empower and equip the WTO to act as both a norm entrepreneur for developing multilateral sustainability standards consistent with its rules and the principle of CBDR-NC, as well as to arbitrate over cases of suspected green protectionism;
- Map the adverse effects of environmental trade barriers and develop recommendations for potential safeguards, as well as strategies to reduce exposure and increase market access for family farmers, indigenous peoples, rural workers' and women associations, local extractive communities, and other groups that traditionally promote sustainable production systems;
- Design participation mechanisms to ensure that multilateral discussions aimed at developing value chain sustainability standards are transparent and inclusive, focusing on the meaningful participation of stakeholders from developing countries, including civil society, think tanks and academia, as well as those who are both at the forefront of environmental protection and most affected by biodiversity loss linked to trade, notably indigenous peoples, traditional and local communities.



## Scenario of outcomes and conclusion

As demonstrated in this policy brief, developing countries have been vocal in condemning legislation enacted by developed nations to restrict the imports of products associated with environmental destruction. The arguments used to substantiate this discontent include the unilateral and punitive character of certain legislation; the disregard for national circumstances and capabilities, including the potential disproportionate burden placed over small producers due to challenges related to limited access to credit schemes, new technologies, training and technical assistance; as well as the potential incompatibility of environmental-based trade restrictions with WTO rules of fair trade.

These concerns have further exacerbated a scenario of distrust and division between developing and developed states, harming the prospects of enhancing international cooperation to promote sustainable trade patterns, with spill over effects into multilateral negotiations in the climate, biodiversity and trade spheres. It is therefore urgent that trust and goodwill is re-established so that multilateral responses are developed to address global environmental challenges, while strengthening the rules-based multilateral trading system.

This policy brief argued that the G20 can play a prominent role in reversing this scenario of distrust. In normative terms, the G20 should utilise its political influence to advocate for positive incentives and horizontal partnerships to ensure that all countries have the means to introduce and implement measures aimed at achieving value chains that are free from biodiversity loss. Including this commitment in the G20 Leaders' and Ministerial Declarations could foster a global narrative shift from a punitive to a cooperative logic, helping to re-establish a sentiment of trust between developing and developed nations in multilateral spaces. In this scenario, which also involves reaffirming

the centrality of the WTO in governing a fair, equitable and sustainable trading system, cooperation and greater market openness to actors acting sustainably becomes the norm and behaviour to be aspired to.

With regards to policy measures, this brief proposed the creation of a Fair, Sustainable and Inclusive Value Chains Facility led by the WTO, with the participation of other relevant bodies such as UNEP and UNCTAD. This facility would be tasked with operationalising 'cooperation, positive incentives and partnerships' as the norm guiding efforts to build CBDR-RC and WTO rules compliant sustainable value chains.

As the world's ecological crisis worsens, it is imperative that the international community comes together to address its drivers, including biodiversity loss linked to trade and the increasing demand for commodities originating from biodiversity-rich areas. As a body comprising countries responsible for over two-thirds of the globe's trade and GDP, as well as some of the world's most politically influential nations, the G20 should play a key role in these efforts.

In this context, Brazil should make use of its rotating G20 presidency to build consensus on the normative and policy measures necessary for developing a multilateral trade system that is fair, inclusive and sustainable and able to deliver concrete resources in favour of the sustainable development of the people from all nations. This aligns with Brazil's objective of mobilising the G20 to promote fair agreements that advance global economic and social development, aiming to build a just world and a sustainable planet.

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