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# Is there a case for the EU to join the Agreement on Climate Change, Trade and Sustainability (ACCTS)?



In 2019, the governments of New Zealand, Costa Rica, Fiji, Iceland and Norway, quickly joined by Switzerland, launched a new initiative towards an Agreement on Climate Change, Trade and Sustainability (ACCTS).<sup>1</sup> The ACCTS focuses on trade-related issues that have the potential to address climate change, starting with the liberalisation of tariffs on environmental goods and services, the definition of disciplines to eliminate harmful fossil

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fuel subsidies, and the development of high integrity eco-labels. Negotiations among this first group of countries should terminate in 2024. We highlight in this blog post<sup>2</sup> the singularity of this–first ever–hybrid trade & environment agreement, and argue that there are more pros than cons for the EU to join it.

## **What makes the ACCTS stand out compared to more “traditional” trade agreements?**

Initiated by New-Zealand, the ACCTS embodies the priority given by this country to climate action. Organized around fossil fuel subsidies (FFS) due to their critical contribution to global warming, it is based on the diagnosis that progress on FFS removal is not advancing fast enough, in spite of commitments made by key subsidizing countries among the G20. There was an urgent need “to try something new”. The novelty of the ACCTS lies in the combination of the three following features:

1. It is an initiative of “small trade-dependent countries” in economic terms, with a good reputation on climate action, a high level of climate ambition, that want to act swiftly and address a landmark driver of GHG emissions (FFS). The idea was to start the negotiations with a limited number of ambitious countries ready to negotiate and get the agreement done and then broaden the membership. We will not know its impact for at least 5 years. The importance is not the negotiation itself, but what happens after the agreement and who will join. It is a dynamic agreement.
2. It is open and plurilateral. There is a common denominator to open plurilateral agreements and the ACCTS makes no exception: the results are to be extended on a Most Favoured Nation (MFN) basis to all WTO members–meaning to countries that are not party to the plurilateral agreement–and more WTO members may join and/or assume similar obligations at a later stage. In this sense, the ACCTS *is not* a regional or free trade agreement (FTA), which are exclusive and where parties grant themselves trade benefits on a non-MFN basis.

3. It is an unprecedented hybrid trade and environment agreement that prioritises climate objectives. The key negotiation areas are at the intersection of trade and climate change and include behind-the-border measures (subsidies) which are not touched upon by FTAs.

## Why the EU should join the ACCTS

The incentive for third parties to join the ACCTS is not based on a promise for more market access, due to the MFN clause. So, why join an agreement if you can benefit from its results without joining it? A critical argument here is that the ACCTS motivates countries to conduct reforms they otherwise would not do as quickly, as deeply, or at all. The ACCTS makes the case that removing FFS is feasible. It offers to join countries to lead by example. In a logic of self-fulfilling prophecy similar to the one which prevailed during the negotiation of the Paris Agreement on climate change, its returns are maximised when countries bet on other countries joining.

Let's look at the three characteristics laid out above and see whether it would make sense for the EU to join—a guesstimate.

1. Is the EU a “small country”, with good climate reputation, high ambition, eagerness to act swiftly and tackle FFS? The EU seems to tick all the boxes except that it is not a “small country”. On paper, the EU can leverage access to its market, and from a narrow commercial perspective, EU member States would be better off signing FTAs than the ACCTS. A first objection we have raised in a previous blogpost is that EU is not the large country it used to be. We mean by this that EU markets which are protected at a significant level have seen their number decline drastically over the last 30 years under various liberalization processes. They concern a handful of manufactured (e.g. textile and clothing) and agricultural products (meat, sugar, maize and rice), thereby narrowing the prospect of preferential market access to trade partner countries.

2. Could the EU afford to join a trade agreement, which commands to extend the additional market access to WTO members on a MFN basis? The full liberalisation of environmental goods (EG) among ACCTS Parties for

example would mean that these countries would liberalise their EG imports from all other WTO members. The EU could be concerned that unfairly priced EG, for instance solar panels, would overflow its market. In addition, it might raise the point that in a period of slowbalisation where the EU intends to relocate strategic supply chain tasks or processes at home, joining a club with lower tariffs on EG applied on a MFN basis would not be timely. We could counter-argue, however, by recalling that the whole range of defence measures (anti-dumping, safeguards) permitted by the WTO are also permitted, under the same terms, by the ACCTS. Unfair practices are not favoured by any loophole on this matter by the agreement. Under this defence system, the classical gains from trade liberalisation apply, making EG cheaper for EU consumers and the Green Deal more cost effective. The economic case for the ACCTS is similar to the unilateral case for free(r) trade.

3. EU countries spent 56 billion euros on fossil fuel subsidies in 2019, with 15 States spending more on fossil fuels than green energy, according to the European Court of Auditors. Between 2015 and 2019, the total amount of fossil fuel subsidies grew by 4% in the EU. The Commission acknowledged that such support must end, since they undermine policies to tackle climate change, including the EU's target to reduce net emissions with 55% by 2030 from 1990 levels. Obviously, “there is a need to try something new” and ACCTS can be such a try–there is actually no alternatives except unilateral cuts, which have not happened yet. There is another reason for the EU to join such a hybrid agreement. The EU should be praised for its efforts to revise its trade doctrine and practices in order to green its FTAs. In this learning process, it seems it is time to look not beyond the current practice but aside at the processes happening in parallel. Greening FTAs seems like an endless task–as FTAs are not primarily designed to meet climate and sustainability objectives. ACCTS starts with the climate goal and uses trade as a means. It is a genuine trade & environment agreement - TEA as we have named it in a previous blogpost. It offers the EU the opportunity to remove one rock from its shoes on the way to net-zero–FFS–and become as agile as Hermes with its winged sandals.

Climate scientist Will Steffen often says: when looking for climate solutions, we too often look at, and wait for actions from, the “big gorillas”: all eyes are on the

EU, China and the US. This approach is wrong, as novelty and breakthroughs actually occur in smaller countries—in the most agile ones. ACCTS is a striking example.

By taking open plurilateralism seriously and joining the ACCTS, the EU could connect the dots among its unilateral and multilateral policies, give its trade agenda a more undisputable climate profile. And walk the talk on the Green Deal.

1 <https://www.mfat.govt.nz/en/trade/free-trade-agreements/trade-and-climate/agreement-on-climate-change-trade-and-sustainability-accts-negotiations/>

2 This blog is based on discussions during a workshop convened by IDDRI on June 6, 2023 on hybrid trade and climate agreements with the ACCTS as a case study.

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