

# Why new tariff codes are necessary to improve trade and combat climate change



A key issue in the fight against climate change and for environmental protection is how to facilitate market access to environmental products (agricultural and non-agricultural ones). The world trading system has an alternative mechanism that can be very useful in that respect: the Harmonised System (HS), which establishes common classification for goods, facilitating the negotiation process. The creation of new tariff codes for environmental products under HS will help to renovate the trade system as some products will be banned from many countries or charged high tariffs (e.g. plastics), an incentive for countries to opt for environmentally friendly products (e.g. biodegradables). The private sector is expected to become more sustainable and small and medium enterprises should be able to increase their sales in the short run.

The international trade system has not been able to adapt to new sustainability trends, despite the increased public pressure for environmental protection and the fast growing demand for ecological products. During the Doha Round, the current round of trade negotiations among World Trade Organisation members, countries recognised the importance of improving trade on environmental goods. Paragraph 3 of the Doha Declaration calls for the “*reduction or, as appropriate, elimination of tariffs and non-tariff barriers on environmental goods and services*”. But so far, the effort has been insufficient and slow, and it looks like it will be like that for a while.

This particular situation arises from the difficulty in explaining the concept of “environmental good” in the multilateral context. Countries have different perspectives and interests in determining whether a product is ecological by its production, its use or both. An environmental good can be a substitute, or a new product representing a whole industry. The Organisation for Economic Cooperation and Development, together with Eurostat, the statistics office of the European Commission, defined the environmental industry as “...activities that produce goods and services to measure, prevent, limit, minimise or correct environmental damage to water, air and soil, as well as problems related to waste, noise and eco-systems. This includes cleaner technologies, products and services that reduce environmental risk and minimise pollution and resource use”.

Countries have had to opt for a plurilateral approach, with groups such as the Asia-Pacific Economic Cooperation (APEC), which in 2012 committed to reducing applied tariff rates to 5 per cent or less by the end of 2015. APEC created Annex C, which consists of a list of 54 products ranging from solar panels to gas turbines that compete internationally. Another remarkable effort is the Environmental Goods Agreement (EGA) promoted by 46 WTO members committed to eliminating tariffs on certain products. However, negotiations have been paused since 2016 and due to the current international political situation, it is not clear when the conversations would restart.

Among environment-friendly goods, industrial and technological products have better market treatment than agricultural ones, whose contribution for combating climate change is more significant, as in the case of products labelled as organic, biodegradable and/or ecological, which also promote social and economic development since the producers are found in developing countries.

This product discrimination occurs because many industrial-technological goods have a special tariff code in the Harmonised System. These goods become the policy maker's favourites, so to speak. Meanwhile, agricultural products are traded with a generic tariff code (e.g. biodegradable chewing gum uses the same HS code as the non-biodegradable one), making it difficult to obtain preferences for such products.

Every member of the World Customs Organisation (WCO) has mechanisms to facilitate the creation of tariff codes by local authorities, who will then present the proposed code(s) at the WCO for the HS five-year review. If the majority of the members agree, a new code will be created and the good will be treated according to its nature and use. Local authorities must adapt such mechanisms with rules that producers and/or farmers can follow easily in order to have a more inclusive trade, following the commitments made on the WTO's Trade Facilitation Agreement.

This alternative will not represent the solution for the whole picture as the environmental industry is facing other problems related to phytosanitary measures, rules of origin and so on... but it will indeed make a difference in the short run, by encouraging business to become sustainable. Consumers will have more access to ecological products. In this sense, trade will address climate change, promote social-economic development and a more responsible consumption, meeting the Sustainable Development Goals (SDGs) which provided a shared blueprint for peace and prosperity for people and the planet.



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