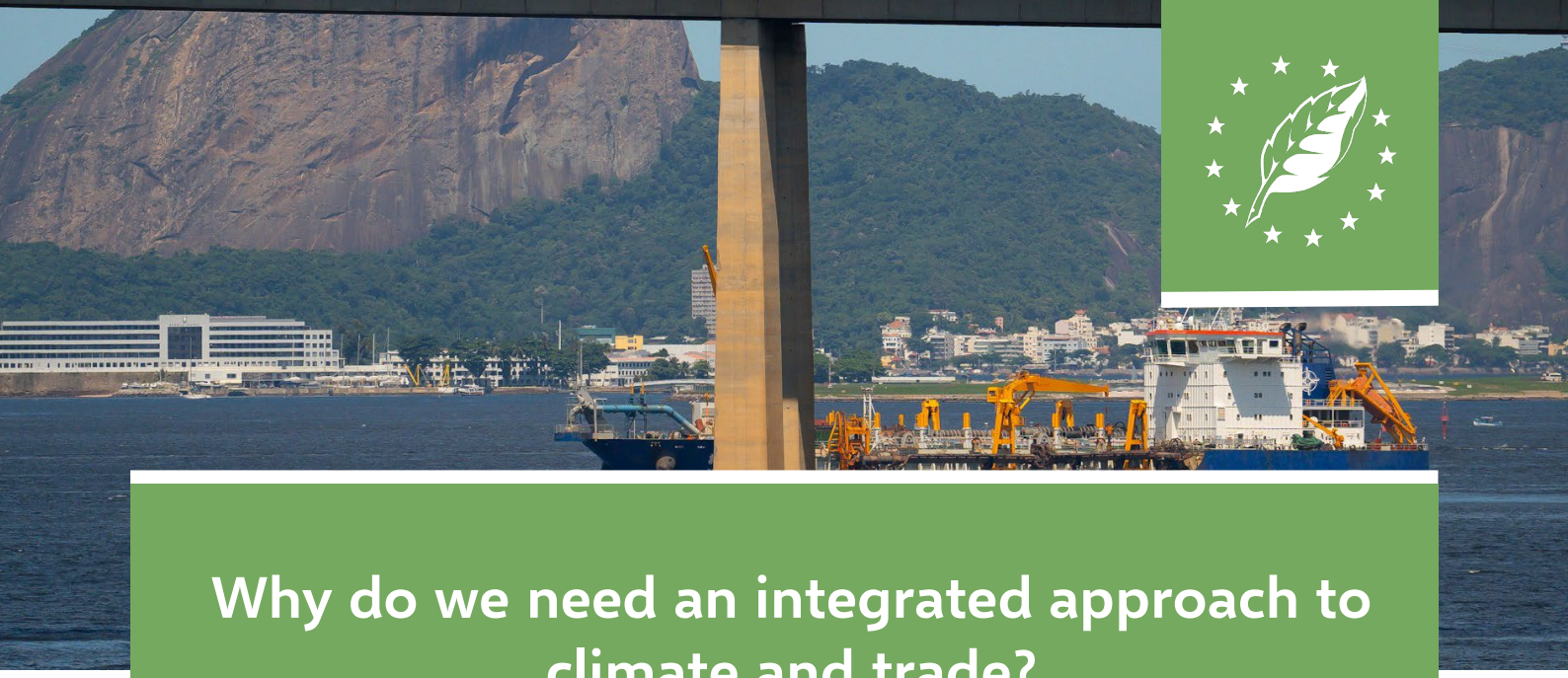

Why do we need an integrated approach to climate and trade?

Key principles for the design of an Integrated Forum on Climate Change and Trade (IFCCT) at COP30

In the lead-up to COP30 (Belem, November 2025), debates on how to reconcile the international trade and climate regimes are gaining renewed attention, as countries navigate rising geopolitical tensions, uneven and insufficient climate commitments, and the extraterritorial reach of unilateral measures such as CBAM. In order to project the EU CBAM towards a positive international dialogue on carbon mitigation, this briefing **four priorities for multilateral action** that could anchor an Integrated Forum on Climate Change and Trade, in line with ideas advanced by Brazil.

1. Recognise and credit diverse mitigation efforts
2. Work towards differentiated price treatment
3. Allocate BCA revenues to a collective and transparent facility under UNFCCC-consistent oversight.
4. Discuss the recognition of different production processes with environmental advantages, such as low-carbon electricity by treating them more favourably.

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In a well-attended session at the WTO Public Forum, Brazil, which holds the incoming COP30 presidency, proposed the creation of an **Integrated Forum on Climate Change and Trade (IFCCT)**. The plan was presented by COP President Ambassador Corrêa do Lago, during the first-ever official visit of a COP Designate President to the World Trade Organisation. Joined by WTO Deputy Director General Jean-Marie Paugam, the Brazilian and Canadian Ambassadors to the WTO, Antonio Patriota and Nadia Theodore, and ICC Chair Philippe Varin, the panel

signalled both political and business momentum with respect to the role of trade in fostering international climate ambitions and solutions. Details of a formal proposal will be unveiled at COP30, but if taken seriously by the international community, it can lead to a comprehensive climate regime capable of addressing trade-related environmental concerns.

The Brazilian call for action is a response to the way climate and trade have been treated in isolation. The current Paris climate regime seeks constructive solutions based on voluntary emissions reductions, which may lead to uneven climate commitments and regulations among nations. Industries in countries subject to environmental regulations (e.g., mandatory mitigation targets) may face competitiveness shocks when competing with goods produced under less stringent regulations. As companies lose short-term local and international competitiveness due to climate regulations, this adds pressure to the implementation of these measures. Additionally, the WTO trade regime lacks affirmative rules to use trade measures for environmental protection. Today, these measures need to be justified under an exceptions clause. This causes political frictions, legal uncertainty, and adds pressure to the already fragile multilateral trade system. What mix of plausible and actionable solutions could be considered?

In an ideal world, the World Trade Organization should be reformed to establish clear and objective rules for environment-related trade measures; an equally demanding second-best path would be to embed trade provisions in the Paris Agreement. Both seem to be outside of anyone's radar. The only option left, being sought by the EU and other actors, is unilateral measures that come with extraterritorial reach (see Leturcq, 2022, Cambridge). What is therefore necessary is a unified regime that regulates trade—covering areas such as concessions and market access—in alignment with ambitious climate objectives.

The EU holds a key position in the climate agenda and should be central to an integrated approach that clarifies the relationship between the climate regime and trade. Because the Paris Agreement is collaborative and largely voluntary, it has limited leverage to ensure enforceability. It opened space for EU measures such as the Carbon Border Adjustment Mechanism (CBAM) to address emissions through trade, creating frictions with the WTO regime.

In order to project CBAM towards a positive international dialogue on carbon mitigation, we propose four priorities for multilateral action that could anchor an Integrated Forum on Climate Change and Trade, in line with ideas advanced by Brazil.

Evolution of the Climate Regime and the European Green Deal

The international climate regime has undergone a fundamental transformation. It evolved from a top-down approach in the Kyoto Protocol (1997) to a more cooperative model under the Paris Agreement (2015). Both sit under the auspices of the UN Framework Convention on

Climate Change (UNFCCC). The principle of Common but Differentiated Responsibilities (CBDR) has been central to the climate regime since its inception in Rio (1992). Enshrined in both Kyoto and Paris, CBDR recognises that while all countries have a shared obligation to fight climate change, historical context (early industrialisation and greater aggregated emissions over time) dictates bigger responsibilities for developed countries. The Paris Agreement states that "developed countries should take the lead in providing financial assistance to developing countries, so they can take adequate measures to fight climate change, including investing in adaptation measures".

Paris's commitments are voluntary and rest with the sovereign choices of each country, expressed through Nationally Determined Contributions (NDCs). These pledges express the percentage reduction in emissions promised by each country relative to total emissions. Countries are free to choose which sectors of the economy will deliver their mitigation targets, such as electricity, industry, transport, agriculture, land-use change, and housing. This flexibility is key for the observance of CBDR, **because it guarantees developing and least developed countries the right to develop** and to choose how to manage emissions and mitigation efforts.

By design, the Paris regime does not include concessions or retaliation mechanisms to enforce compliance, as observed in other multilateral agreements such as trade partnerships. To some, the lack of enforceability renders the Paris Agreement aspirational. In policy jargon, it "lacks teeth", and this is what some unilateral trade measures, such as the EU Deforestation Regulation (EUDR) and the Carbon Border Adjustment Mechanism (CBAM), aim to solve. They are both part of the European Green Deal, launched in December 2019, as the EU's response to the climate urgency. The Green Deal is a guiding framework aimed at decarbonising the European economy, improving the environmental footprint of EU consumption, and ultimately meeting its NDC.

Sector-specific regulations and strategies were created under the Green Deal to meet the EU's current emissions-reduction targets under the Paris Agreement. Since 2005, emissions from large industrial sectors have been regulated through a cap-and-trade system, the EU Emissions Trading System (EU ETS). It has a "cap" because it sets a maximum number of emission allowances in circulation. Every year, a reduction factor is applied, reducing the emissions cap. It "trades" because it permits companies to buy and sell emissions allowances to balance supply and demand in order to optimise investments in mitigation.

The Paris Agreement and the EU ETS

The EU ETS is based on the assumption that, by trading allowances, companies can best allocate financial resources to mitigation: either by investing in technology to reduce their own emissions, or by financing mitigation in other companies (buying allowances) if that is more cost-effective. In practice, **money will go where reducing emissions is cheaper**, optimising resources and increasing overall reductions. To avoid a shift in consumption to imported goods

that are not covered by the EU ETS, a phenomenon known as carbon leakage, firms are given free allowances. In consequence, not all emissions over the cap are paid for, allowing firms to retain some competitiveness. Until 2012, there were more free allowances than verified emissions in the EU ETS. As a consequence, total emissions reductions within ETS sectors were modest in the first operating cycles but have been accelerating in the last revision (Phase 3 & 4). ETS Phase 4, which was part of Fit-for-55 package, is calibrated to bring ETS covered industrial emissions down by 62% compared with 2005 levels.

From 2005 until 2023, ETS sectors reduced emissions by an average of 2.5% a year (excluding the UK and the aviation sector). To meet its emissions target within the Paris Agreement, the EU needs to accelerate mitigation. It increased the reduction factor of the ETS emissions cap from 2.2% (2023) to 4.3% in 2024, and plans to phase out free allowances. It brings to EU firms a competitiveness dilemma: as costs for industry may rise, they may lose market share to imported goods. To address the risk of carbon leakage, a mechanism to price imports was designed: the Carbon Border Adjustment Mechanism (CBAM).

CBAM at the intersection of trade and climate

CBAM is a border measure requiring importers of carbon-intensive goods to purchase certificates reflecting the EU ETS price of their embedded emissions. It aims at preventing carbon leakage and safeguarding fair competition. What triggers CBAM obligations is the importation of CBAM goods, not industrial production or the emissions themselves. Therefore, it should be interpreted under commitments within the WTO's multilateral trade regime. It aims to preserve the integrity of EU's climate ambitions by restoring competitiveness *vis-à-vis* imports. Because accelerated mitigation is essential to deliver the EU's NDCs, it should also be interpreted as an integral part of its commitments to the Paris Agreement, including the principle of Common but Differentiated Responsibilities (CBDR).

Concerns about CBAM's socio-economic spillovers were formally presented by several developing countries (G77+China, African Group, Arab Group) at COP29 (Baku) and its preparatory June Meeting in Bonn, in 2024. They urged the Katowice Committee of Experts on the Impacts of the Implementation of Response Measures (KCI) to conduct an expert impact assessment on "unilateral trade-related measures under the pretext of climate action". As an official UNFCCC body, KCI delivers Paris Agreement Article 4.15, by being a platform to address these types of concerns from countries' climate actions and their spillovers.

Learning from CBAM experience in stressing the interoperability of climate and trade, we propose four areas of multilateral action as inputs for debating a new Integrated Forum on Climate Change and Trade (IFCCT).

Four priorities for multilateral action

The EU has privileged carbon pricing as its central mitigation instrument, and CBAM effectively exports that template. It disregards other efforts in reducing emissions and, indirectly, limits the policy tools other countries may prioritise. It creates frictions with the Paris Agreement's built-in flexibility and its recognition that nationally determined contributions and implementation pathways should reflect countries' different developmental stages. In practice, CBAM asks third countries to pay the EU price per tonne of carbon, regardless of whether their NDCs emphasise other sectors or non-price instruments. (1) **A more integrated climate-trade approach should recognise and credit diverse mitigation efforts**—e.g., performance standards, renewable energy, efficiency mandates, reductions in other GHG gases, industrial policy, and improved measurement, reporting and verification (MRV)—so as not to impose disproportionate burdens on developing countries whose optimal solutions may not centre on pricing.

CBAM will impose the carbon price paid by European firms in the EU ETS to imports. In countries that stablish domestic ETSs, their prices will typically be lower. The difference will be charged at the border in the form of CBAM certificates, guaranteeing competitiveness to EU firms. (2) **From a development perspective—and consistently with UNFCCC flexibility and leadership—differentiated price treatment is both reasonable and fair.** Options could vary with phase-ins, price corridors, or recognizing mitigation projects as effective carbon prices (see Sandler 2024, Harvard). It would allow exporters in developing countries to reduce their CBAM liabilities in a way that incentivizes decarbonization while preserving a level playing field for EU industries.

Channelling CBAM revenues into the EU Innovation Fund opposes the Paris Agreement's expectation (Article 9) that developed countries take the lead in providing finance, technology and capacity-building to developing countries**. (3) In an integrated climate–trade regime, eventual revenues from carbon border measures should be allocated to a collective and transparent facility under UNFCCC-consistent oversight**. It would support existing financial schemes, with predictable contributions for mitigation and adaptation in least-developed countries. Re-routing revenues in this way would be a strong signal of leadership and a cooperative lever that advances equity and system-wide climate ambition.

Currently, CBAM considers only direct process-related emissions (scope 1), ignoring emissions from electricity generation embedded in production (scope 2), which account for roughly 40% of global CO_2 emissions. This omission treats clean and dirty energy grids the same way, removing incentives to decarbonise energy generation in third countries. (4) **An integrated climate-trade regime should discuss the recognition of different production processes with environmental advantages, such as low-carbon electricity by treating them more favourably.** With the prospective use of default values (predefined emission factors in the absence of facility-level data), the distortion becomes more acute. A climate–trade measure that truly targets embedded emissions should incorporate verifiable scope 2 emissions data to reward cleaner energy systems fairly.

Taken together, these **four priorities** point toward a single, integrated climate-trade regime that replaces fragmented unilateralism with clear, predictable, and development- sensitive rules. They are not exhaustive, as there are other viable paths of cooperation. They nevertheless mark a substantive step toward fairer rules that better target embedded emissions while keeping markets open.

An additional step in that direction would be to make the proposed climate–trade forum a stepping stone toward the creation of dedicated public agencies, which would be jointly funded by participating Parties. These agencies could operate at regional or sectoral levels to provide targeted public procurement, technical assistance, and financing aimed at helping firms—particularly small and medium-sized enterprises in developing regions—adapt to carbon accounting, reporting, and compliance requirements such as CBAM. By pooling expertise and resources, such agencies would lower the administrative and financial barriers to participation in low-carbon value chains, enhance transparency in emissions data, and create a cooperative infrastructure that aligns trade with equitable decarbonisation pathways.

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GREEN TRADE NETWORK

The Green Trade Network is a group of experts from over 20 European research organisations, ranging from think tanks to NGOs and academia, conducting evidence-based research and outreach activities on the trade and environment nexus. IEEP is proudly coordinating the network and its activities.

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