

UNILATERAL TRADE MEASURES IN THE CONTEXT OF MEASURES TO ADDRESS CLIMATE CHANGE

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Research output

This research introduces the concept of unilateral trade measures and their rationale, and presents their potential benefits and drawbacks.

Introduction

The [World Bank](#) estimates that a quarter of the global greenhouse gas (GHG) emissions come from international trade. As countries race to increase the ambition of the Nationally Determined Contributions under the [Paris Agreement](#), policymakers are grappling with the challenge of reducing GHG emissions while maintaining economic growth. One strategy that has emerged in this context is the use of unilateral trade measures (UTMs) as a tool to address climate change. Unilateral trade measures involve actions taken by a single country or a group of countries to restrict or alter trade practices based on environmental standards, aiming to incentivise foreign nations to adopt cleaner practices or penalise those that do not. While such measures have the potential to push global climate action forward, they also raise concerns about fairness, [trade distortion](#), and the effectiveness of these policies in achieving broader environmental goals.

This piece of research explores the rationale behind UTMs in the fight against climate change, their potential benefits and drawbacks, and their place in the international trade system. It concludes that while UTMs can offer critical leverage in promoting global climate goals, their implementation must be carefully designed to avoid economic disruption and ensure compliance with multilateral trade agreements.

The rationale for unilateral trade measures on climate change

Global climate governance has long been characterised by difficulties in securing binding commitments from all major economies, including developing countries. Despite multilateral agreements such as the

Paris Agreement, countries differ significantly in their ambitions and capabilities to reduce emissions. Against this backdrop, UTMs have emerged as a means for countries, particularly developed ones, to address what is often termed the “carbon leakage” problem.

[Carbon leakage](#) occurs when stringent environmental regulations in one country lead industries to relocate to countries with laxer regulations, undermining the original policy’s environmental goals. This relocation not only weakens domestic environmental efforts but can also result in increased global emissions. To combat this, UTMs, such as [border carbon adjustments \(BCAs\)](#), are designed to equalise the playing field. BCAs impose tariffs or taxes on imported goods from countries with lower environmental standards, ensuring that domestic industries are not put at a competitive disadvantage.

Another rationale for UTMs is that they can serve as an incentive for other nations to strengthen their own climate policies. For instance, by restricting the import of products made using high-emission processes, a country may pressure foreign producers to adopt greener technologies to maintain access to key markets. The European Union’s proposed [Carbon Border Adjustment Mechanism \(CBAM\)](#) is a prime example of this, as it seeks to encourage third countries to adopt more ambitious environmental policies. The EU is also exhorting other countries to combat deforestation through its [Forest Due Diligence Regulation](#).

Potential benefits of unilateral trade measures

As previously discussed, the most direct benefit of UTMs is their potential to prevent carbon leakage. By imposing tariffs on goods from countries with lax environmental regulations, UTMs can maintain the competitiveness of domestic industries that are subject to stringent climate policies. Without such measures, industries in countries with robust climate regulations could be at a disadvantage, leading to a shift of production to less regulated regions.

Moreover, UTMs also further global climate action by encouraging other nations to enhance their environmental policies. Many developing countries may be reluctant to adopt strict climate measures, citing concerns over economic growth and competitiveness. However, if key export markets impose UTMs, these countries may find it in their interest to adopt greener policies to avoid penalties.

UTMs also have the potential to be a strategic tool for advancing climate diplomacy. Large economies from the developed and developing world can leverage their massive markets to influence global environmental practices. For instance, by conditioning market access on compliance with environmental standards as in the case of EU Forest Due Diligence Regulations, these countries can extend the reach of their climate policies beyond their borders.

Lastly, but of utmost importance, is the opportunity for technological innovation. UTMs create economic incentives for industries worldwide to invest in cleaner production technologies. By raising the cost of high-emission goods through tariffs, UTMs can make low-emission alternatives more attractive. This could, in turn, foster the development and deployment of renewable energy technologies, energy-efficient manufacturing processes, and sustainable agricultural practices.

Potential drawbacks and challenges of unilateral trade measures

While UTMs hold promise as a tool for addressing climate change, they also come with significant drawbacks that require careful consideration.

First and foremost is the impact on international trade and consistency with the WTO regime. As a prerequisite, UTMs necessarily cannot discriminate between trading partners (Most Favoured Nation Treatment) and/or between domestic and foreign producers (National Treatment). UTMs, especially if they are perceived as protectionist, may violate these rules by imposing different standards on foreign goods. Countries that impose such measures risk facing retaliatory tariffs or sanctions, ultimately leading to trade disputes. However, these measures can be successfully defended under exceptions (b) and (g) of Article XX of the GATT, provided they meet the conditions of this provision.

Developing countries, which are often the least responsible for global emissions but most vulnerable to climate change, could be disproportionately affected by UTMs. These countries may lack the financial and technological resources to comply with stringent environmental standards, leading to trade barriers that could hinder their economic growth. Additionally, developing nations often depend heavily on exports, and being excluded from key markets due to UTMs could exacerbate economic inequality between the Global North and South. From an environmental justice perspective, this can be viewed as [eco-imperialism](#)/ green colonialism.

As previously mentioned, there is a fine line between environmental protection and protectionism. Critics argue that UTMs could be used as a guise for promoting domestic industries at the expense of foreign competition. Such measures could undermine trust in international trade and lead to retaliatory trade wars, which would harm global economic stability without significantly advancing climate goals. As an example, some view the [Clean Tax Credit](#) implemented by the USA for electric vehicles meeting very specific conditions as favouring domestic production.

Lastly, the [effectiveness](#) of UTMs in reducing global emissions remains highly contested. While they can pressure some countries to adopt stronger environmental standards, they may not address the root causes of global carbon emissions. Furthermore, UTMs are often limited in scope, focusing on

specific sectors like steel or cement production, while emissions from other sectors, such as agriculture or transportation, remain largely unaddressed.

Toward a multilateral approach

While UTMs can be a useful tool in the global fight against climate change, their success depends largely on how they are implemented within the broader framework of international trade and climate governance.

A multilateral approach could be far more effective than unilateral measures, as it would provide greater legitimacy, fairness, and collective action. The [UNCTAD](#) has several recommendations on how it could be done. First and foremost, there must be increased transparency between all countries regarding climate change-related UTMs. Facilitating dialogue between developed and developing countries on the design and implementation of these measures can go a long way in ensuring multilateral cooperation. The WTO has the potential to facilitate these dialogues, leading to the adoption of new international agreements dealing with UTMs.

International collaboration will be essential in ensuring that UTMs do not disproportionately harm developing countries. Mechanisms such as climate finance, technology transfer, and capacity-building support could help these nations transition to cleaner production methods without facing punitive trade measures. Additionally, bilateral and regional trade agreements could incorporate climate clauses that encourage all signatories to adopt higher environmental standards, fostering a more coordinated global response to climate change.

Conclusion

Unilateral trade measures are an increasingly common tool in the effort to address climate change, offering the potential to prevent carbon leakage, promote global climate action, and incentivise technological innovation. [Bodansky](#) argues that unilateralism is better than global inaction, especially when nations are rapidly running out of time to meet the Paris Agreement's goals.

However, they also carry risks, including trade discrimination, negative impacts on developing countries, and the potential for protectionism. To maximise the benefits of UTMs while minimising their drawbacks, policymakers must [carefully design](#) these measures in compliance with international trade rules and in a way that fosters global cooperation. Ultimately, a multilateral approach to climate and trade policy, backed by strong international institutions, would offer the best path forward for achieving meaningful climate action on a global scale.