Aligning Trade and Climate Policies

A Path for Sustainable Agricultural Policies and Global Cooperation

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The agro-industrial sector plays a crucial role globally in reducing poverty, promoting food security and fostering growth. According to a report by the Food and Agriculture Organization (FAO 2023), hunger affected approximately 9.2% of the global population (about 735 million people) in 2022, and 2.4 billion faced moderate or severe food insecurity.

Additionally, the agro-industrial sector generates significant economic activity, contributing significantly to socio-economic development in underdeveloped countries. According to the World Bank, agricultural systems are the main source of food and income for most of the world's poor and food-insecure people, around 80% of whom live in rural areas and work mainly in farming. Furthermore, agriculture represents 4% of the global GDP, and it can account for more than 25% of the GDP in some developing countries.

However, multiple disruptions threaten global food security and the resilience of agricultural systems, ranging from extreme weather occurrences such as floods and wildfires to pest outbreaks. According to the Global Report on Food Crises (ORIG 2023), in YEAR extreme weather was the primary driver of acute food insecurity in 12 countries around the world. For the 1991–2021 period, FAO estimates an average annual loss of USD 123 billion in agricultural production due to these disasters. This value is equivalent to 5% of global agricultural GDP and reaches 15%

of agricultural GDP in low- and lower-middle-income countries.

At the same time, agricultural systems have a significant environmental impact that increases the effects of climate change and promotes land degradation when inadequate practices are implemented. Agriculture is responsible for around one-quarter of the world's greenhouse gas emissions (OECD & FAO, 2024). These emissions arise from livestock farming, grain cultivation, and the conversion of forests, grasslands and other lands to agriculture. According to Climate Watch Data, in 2018 Brazil, Indonesia, India, and the Democratic Republic of the Congo contributed 40% of agricultural emissions.

Furthermore, approximately 80% of global deforestation is driven by agriculture (Branthomme et al., 2023), while Brazil and Indonesia account for almost half of tropical deforestation. The expansion of pasture for beef production, croplands for soy and palm oil, and conversion of primary forests to tree plantations for paper and pulp have been the key drivers of deforestation (Ritchie 2021). According to the UN Convention to Combat Desertification (UNCCD, 2022), agriculture occupies more than 40% of the global land area, while 20% of the global land area is degraded.

In recent years, due to the need to hasten the fight against climate change, the idea of using trade policy as an instrument to reduce emissions has spread (Stiglitz, Tucker & Estevez, 2022). This approach could be considered a form of "green protectionism," which uses environmental and trade policy instruments to address environmental concerns. These instruments include market access requirements, such as technical measures and information disclosure obligations, as well as domestic subsidies for production and innovation. Additional instruments, such as differential tariffs and border adjustments based on production processes and methods, are still under discussion (Lottici, Galperín, & Hoppstock, 2014).

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In this context, some industrialized countries, and especially the EU, have put forward unilateral initiatives such as the Carbon Border Adjustment Mechanism (CBAM) and the EU Deforestation Regulation (EUDR), which aim to encourage countries exporting products to the EU to raise their environmental production standards (Benson et al., 2022). The EUDR requires producers of commodities such as cattle, wood, cocoa, soy, palm oil, coffee, rubber and some of their derived products to demonstrate that their products do not come from recently deforested land or contribute to forest degradation when placed on the EU market or exported from it. Under the Carbon Border Adjustment Mechanism (CBAM), importers registered within the EU who import certain goods

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originating from third-world countries will be required to acquire certificates equivalent to the carbon price that would have been paid if the same goods had been produced within the EU. Initially, the mechanism will apply to direct emissions and cover six emission-intensive sectors: Cement, hydrogen, steel, iron, aluminum, fertilizers and electricity. Although the EU maintains that the CBAM is compatible with WTO rules (it is non-discriminatory and has a justification in terms of leveling the playing field), the countries concerned have argued that it is a protectionist measure.

For its part, the United States has maintained a protectionist stance since the first Trump administration, a trend that has only been amplified during the second Trump administration. The Inflation Reduction Act (IRA) of 2022 introduced subsidies aimed at promoting clean energy and climate initiatives. However, these subsidies have faced international scrutiny for potentially violating WTO rules. In March 2024, China requested WTO consultations regarding certain tax credits under the IRA, alleging they contravene WTO principles (World Trade Organization, 2025). Similarly, the European Union has expressed concerns that the IRA's provisions may breach core WTO principles, particularly those related to national treatment and most-favored-nation status (European Commission, 2025).

By imposing additional costs on imports, green regulations could negatively affect the competitiveness of food producers in developing countries, especially small-scale producers. These producers often face significant challenges, such as limited access to finance and low-emission technologies, as well as insufficient capacity to comply with administrative requirements and implement production tracking and tracing technologies (Lim et al., 2021; Lottici, Galperín, & Hoppstock, 2014; van Noordwijk, Leimona, & Minang, 2025).

It is estimated that between 3% and 35% of exports in LAC and Africa are exposed to these regulations (Arenas & Echandi, 2023). The economies of major palm oil-producing countries in Asia, such as Indonesia and Malaysia, the agribusiness industries of countries such as Brazil and Argentina, and EU-bound cocoa exports from countries such as Côte d'Ivoire and Ghana are also likely to be affected (S&P Global Market Intelligence, 2023). Moreover, this situation could worsen in the medium term since it's likely that these regulations will expand to other countries, products and ecosystems, such as savannahs and wetlands.

Concurrently, there has been insufficient progress in fulfilling the agricultural financing commitments for emerging and developing countries as outlined in the Paris Agreement. Article 2.1(c) of the Paris Agreement emphasizes the need to make financial flows consistent with pathways toward low greenhouse gas emissions and climate-resilient development (Wright, 2021). Despite this agreement, the allocation of adequate financial resources to support sustainable agricultural practices in these nations remains insufficient. While USD 700 billion is paid out in agricultural subsidies each year, only around 15% of this amount positively impacts natural capital, biodiversity, long-term job stability or livelihoods (UNCCD, 2022).

These unilateral regulatory measures, combined with a lack of substantial financial support for sustainable agriculture in developing countries, underscore the necessity for a coordinated and multilateral approach. A sound analysis of agricultural subsidies and the allocation of promised financial resources is needed. Collaboration is essential to harmonize climate and trade policies effectively, ensuring that environmental objectives are met without compromising the development needs of emerging economies.

In this context, the G20 countries, in collaboration with key organizations such as the FAO, IPCC, IPBES, WTO and development banks, have the unique opportunity to lead by creating a global policy framework to support the transition to sustainable production models.

First, it is crucial to reinvigorate dialogue and international cooperation. Efforts should focus on harmonizing regulatory frameworks in order to avoid unilateral actions by powerful states that could undermine trust, increase the probability of conflict, negatively impact the economies of developing countries and delay the global fight against climate change.

The G20 can play a key role in convening dialogues that bring together developed and developing nations to establish common ground on environmental trade policies. Additionally, the formation of a dedicated working group within the WTO to assess the impact of climate-related trade measures on developing economies could provide a structured approach to mitigate unintended negative effects. This initiative should include capacity-building programs to support developing nations in complying with emerging regulatory requirements while ensuring their economic growth is not jeopardized.

Second, allocating agricultural subsidies and financial support for sustainable agriculture in developing countries is key for promoting better green practices while ensuring food security, conservation and resilience to climate change. It is essential to allocate limited resources more strategically while aligning with international commitments.

Developed countries and multilateral institutions should prioritize financing mechanisms that incentivize sustainable practices rather than reinforcing conventional, high-emission agricultural models. One approach could be a global reallocation of existing agricultural subsidies toward sustainability-linked incentives, ensuring that a greater portion of the annually spent in agricultural support is directed towards biodiversity conservation, carbon sequestration and climate-resilient farming techniques. Furthermore, devel-

oping nations should be equipped with better access to green financing, facilitated through multilateral development banks, to ensure the adoption of climate-smart agricultural technologies. Additionally, cooperation and capacity-building investment in research institutions in developing countries can provide a better basis for local sustainable technology development and adoption.

Third, while public policies and international cooperation should lead the way in addressing food security and climate change, market-based instruments can their efforts. Carbon market investments should prioritize high-quality nature-based solutions and sustainable agriculture projects that meet the highest standards. Additionally, traceability and emissions measurement systems need to be improved, taking into account scientific evidence on soil carbon stocks, as well as the fluxes and dynamics of productive systems.

Carbon markets should be expanded to include smallholder farmers and agribusinesses in developing nations, enabling them to benefit from carbon credit revenues. However, to ensure equitable participation, international organizations can provide technical assistance and financial support to help farmers meet certification requirements. Concurrently, investment in digital traceability solutions and blockchain-based monitoring systems should be encouraged to enhance transparency and compliance with carbon trading standards. These technological advancements will be critical in ensuring that emission reduction claims are verifiable and in aligning trade policies with climate objectives.

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Finally, it is essential to ensure that climate-related trade measures are compatible with the WTO framework and align with existing trade rules to support both environmental and economic objectives.

Strengthening WTO processes to enhance dialogue and cooperation on climate-related trade policies could be an effective approach. A dedicated WTO forum on trade and sustainability would facilitate discussions among members, ensuring that trade measures related to climate action are transparent, non-discriminatory, balanced, and aligned with national regulations and policies. Additionally, the WTO could play a role in fostering capacity-building initiatives that support developing nations in meeting sustainability requirements without compromising their economic growth.

While the agricultural sector is currently responsible for a significant share of global emissions and land degradation, it is also the key to ensuring food security and promoting the development of food-producing developing countries. In the short term, there is a trade-off between global sustainability and develop-

ment. This trade-off can be softened by increasing financial resources to food-producing countries and investing them to develop and adopt technology for more efficient and sustainable production processes. Investment might be supported by multilateral development banks and involve the direct transfers of fund and technology from advanced countries.

This approach would create a win-win situation that supports development while speeding up the transition away from carbon-intensive agriculture practices. The benefit would be global. But for this to be possible, two things are necessary: Any action in which trade policy is used for climate objectives must be coordinated within the WTO and we must ensure that funds reach the countries that need them to accelerate the transition to better agricultural practices.

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