

Villars Framework for a Sustainable Trade System 2.0

Policymakers Summary

February 2024



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Today's trade system – centered on the World Trade Organization (WTO) but also including the United Nations Conference on Trade and Development (UNCTAD) and the International Trade Centre (ITC) at the multilateral level and many different initiatives at the regional and other plurilateral levels – has come under assault from many directions and for several reasons. In this regard, the trade regime stands at a watershed moment – requiring careful understanding of the challenges being posed and the potential for transformative change to better align the system with today's political realities, public expectations, and policy requirements.

The *Villars Framework for a Sustainable Trade System 2.0* seeks to respond to this need for fresh thinking, careful analysis, and thoughtful reform. Generated by a diverse set of scholars, researchers, and other thought leaders operating under the banner of the [Remaking Global Trade for a Sustainable Future Project](#), this revised version of the original *Framework* supersedes the first *Framework* released in September 2023. This Policymakers Summary distills the 160-page full report into a concise 8-page overview of the key arguments and conclusions.

Where the International Trade System Got Off Track

Over many decades, the international trade system has contributed in important ways to uplifting the lives of people worldwide and to strengthening economies. But the trade regime cannot hope to optimize its contributions to social welfare if it operates in isolation from the broader challenges of the society in which it exists. In this regard, globalization and trade liberalization have become the subject of pervasive political pushback in many countries, and the multilateral trade system is being continuously challenged by global disruptions caused by warfare, pandemics, and the pursuit of political gain and national advantage at the expense of others.

At the core of the critique now widely circulating is the suggestion that WTO Members allowed the rules and procedures of the organization to drift in the 1980s and 1990s away from the origins of the inclusive Bretton Woods trade system launched in the 1940s with its recognition that nations have significant policy goals beyond the economic realm that must be respected to a narrow focus on opening markets and clearing obstacles to international trade. Many observers thus perceive WTO Members to have insufficiently addressed the needs of developing countries,

micro-, small-, and medium-sized enterprises (MSMEs), emerging entrepreneurs, small-scale farmers, indigenous communities, and other marginalized groups as well as individuals in their roles as workers and citizens as opposed to consumers.

Other critics fault the current structure of the trade system for failing to contribute to efforts to address environmental threats and challenges to planetary boundaries, including climate change, a worldwide loss of biodiversity, increased air and water pollution, contamination of the oceans, improper waste disposal, and the despoilment of the land through extractive industries and unsustainable agricultural practices. They highlight that the WTO Members have not taken seriously the organization's founding mandate to promote sustainable development, as stated in the Preamble to the 1994 Marrakesh Agreement that launched the WTO. Simply put, the trade system is widely perceived to have failed to fulfill its potential to address critical environmental issues or to advance progress on the social dimensions of sustainability, including inequality, poverty, gender parity, worker impacts, labor rights, and shared public health challenges.

But a sharper critique has also been leveled at the trade regime based on the very fact that the reduction of barriers to trade, without adequate account of the full social costs of the economic activities that are thus promoted, risks accentuating harm to people and the planet. Indeed, many of the enterprises that have thrived in international trade have business models that entail spillovers of pollution or other harms that undermine progress toward a sustainable future rather than supporting action on climate change and other fundamental challenges such as those highlighted in the UN Sustainable Development Goals (SDGs). If the global system permits these uninternalized negative externalities to persist – with enterprises and states not being held to account for the full social costs of their actions – then the promise of welfare gains from trade cannot be assumed.

Why Trade Matters

Paradoxically, while trade has contributed to the expansion of unsustainable business practices, it can – and must – be an essential part of the path to a sustainable future. Trade can increase access to the environmental goods, services, technologies, and know-how that the world urgently needs. It can dramatically drive down their costs and increase their affordability. And it can spur the innovation and technological advances that will enable the transition to an environmentally sustainable global economy. Just as trade helped to drive economic progress in the past – by leveraging comparative advantage, expanding access to key technologies, and incentivizing breakthroughs in products and production methods – trade can play a central role in driving progress toward a sustainable future.

But the role the global trade system play is in dispute. In this regard, the WTO is ultimately the result, not the cause, of national governments' willingness to cooperate (or not) on trade. These governments are themselves answerable to their citizens, voters, and broader public opinion. In the end, it is these same governments (and the people they represent) who will decide whether the trade system becomes part of the solution to the global environmental crises and the broader sustainability challenges we face – or remains part of the problem.

Remaking Global Trade for a Sustainable Future

The Remaking Global Trade for a Sustainable Future Project seeks to address the full scope of these challenges and opportunities. The *Villars Framework* sets out a comprehensive, detailed, and action-oriented blueprint for how countries can harness trade policy to create the sustainable global economy the world urgently needs.

For the past two years, the Project team has conducted a series of [10 workshops](#), and hosted related webinars, high-level debates, and panel discussions on critical issues at the interface between the trade system and the 21st century [sustainability imperative](#).¹ Each workshop brought together 30 - 45 issue experts for multiple days of intensive discussion and problem solving – involving in total more than 400 thought leaders from a diverse set of geographic, disciplinary, professional, and political perspectives. The Remaking Global Trade for a Sustainable Future Project also commissioned 60 [White Papers](#), seeking to illuminate the critical trade-sustainability tensions and possible paths toward better alignment between the trade regime and a sustainable future. These background papers undergirded the workshops, which covered a wide range of topics:

- climate change
- elements of a just transition to a clean energy future
- digital and information technology opportunities to promote sustainability
- circular economy and pathways to a zero-waste future
- social dimensions of sustainability including poverty, inequality, public health, labor rights, worker impacts, gender parity, and indigenous people rights
- difficult-to-decarbonize industries – including engagement of producers in developing countries
- finance, innovation, and investment for sustainable development

¹ David A. Lubin and Daniel C. Esty, [The Sustainability Imperative](#), Harvard Business Review (May 2010).

- air and maritime transport – with a focus on marine shipping
- sustainable agriculture and food systems
- oceans and the emerging Blue Economy
- governance and institutional reform of the trade regime

In September 2023, the Project team presented a preliminary version of the *Villars Framework for a Sustainable Trade System* in the Swiss mountain town of Villars at a high-level summit meeting hosted by the Villars Institute. The meeting was attended by two dozen WTO ambassadors and 75 other leading trade and sustainability experts.

In addition to the debate and discussion in Villars, the Remaking Trade Project team has benefitted from thoughtful comments and proposed refinements from a wide variety of other thought leaders. Indeed, the original *Villars Framework* has been presented through dozens of events that including officials at the WTO secretariat, WTO missions, other international organizations, business associations, think tanks, environmental groups, and universities. The feedback and suggestions from all of these sessions have contributed to an internal review and revision process leading to this *Villars Framework 2.0*.

The Project now enters a new phase focused on outreach and education, including presentation and review of the proposed trade system reform agenda in a wide variety of settings where trade and sustainability discussions are being held. The goal is to explain the logic of the recommendations, seek additional feedback, and begin to map out the political path forward by identifying champions (countries, individuals, and organizations) who might advance the proposed trade system reform agenda.

Path Forward

As a result of the tensions highlighted above and the difficulty that the trade system has had over some time in delivering progress on critical issues, it is now widely perceived that the WTO and the trade system more broadly are in danger. As WTO Director General Dr. Ngozi Okonjo-Iweala has herself made clear, the trade regime needs to undergo a fundamental transformation to meet the needs of the current moment and be seen as fit for purpose in the decades ahead.

Fundamentally, the *Villars Framework for a Sustainable Trade System* seeks to revitalize the trade system and to make it more effective, sustainable, inclusive, people-centered, just, transparent, and digital. The reform package being advanced recognizes the need to move away from the narrow view of the WTO's role as merely clearing obstacles to trade to the wider goal of promoting sustainable development.

It also has to go beyond the WTO to other arenas where trade policy is created and implemented – including but not limited to UNCTAD, ITC, and regional trade initiatives. These shifts in emphasis offers the promise of broader public and political support – and thus restored legitimacy and relevance in global governance and the management of international economic interdependence.

New Priorities

In addition to contending that *sustainable development* must become the new core mission for the trade system, a further recommendation of the Remaking Global Trade for a Sustainable Future Project centers on the need for the trade system to do its part to deliver the global public goods required to promote a sustainable future across all three interrelated dimensions of sustainable development: economic, environmental, and social progress.

Proposed Sustainable Trade System Reform Agenda

In support of this reconceptualization of the trade system, the Remaking Global Trade for a Sustainable Future Project team proposes a comprehensive reform agenda for consideration by the WTO Members including the following action items.

1. Ensure that the Abu Dhabi Declaration emerging from the WTO 13th Ministerial Conference (MC13) in February 2024 expresses support for a people-centered trade system, reaffirms the 1994 Marrakesh Agreement commitment to sustainable development, and encourages WTO Members to **align their trade policies with their climate change commitments** – while ensuring that the WTO supports and reinforces WTO Members in their efforts to fulfill their: (1) Nationally Determined Contributions (NDCs) to climate change action as well as climate finance commitments under the 2015 Paris Agreement; and (2) commitment to net-zero emission targets around mid-century under the 2021 Glasgow Climate Pact.
2. Adopt a proposal for development of a **new WTO approach to subsidies** that takes account of the sustainability impact of subsidies alongside the potential for these subsidies to disrupt trade – establishing a work stream focused on subsidies reform that includes:
 - commitments to phase out sustainability-diminishing subsidies (including follow-through on prior commitments in this regard)
 - strategies for repurposing of these funds
 - facilitation of sustainability-enhancing subsidies and development of disciplines on the use of such subsidies to minimize their trade disruption

- a response to concerns that a *subsidies race* might harm less industrialized countries
3. **Fulfill the mandate of the 2022 Fisheries Subsidies Agreement** related to over-fishing and over-capacity – further demonstrating the WTO’s capacity to promote sustainable development.
 4. Launch a WTO initiative focused on establishing **inclusive processes for sustainability-related standard setting** through a series of work streams hosted by relevant WTO Committees (including Trade and Environment, Technical Barriers to Trade, Sanitary and Phytosanitary, Agriculture, and others – alongside appropriate partners including the International Organization for Standardization (ISO), the Organization for Economic Co-operation and Development (OECD), UNCTAD, ITC, the Intergovernmental Panel on Climate Change (IPCC), United Nations Environment Programme (UNEP), and relevant industry associations), including work programs on climate change-related issues covering:
 - **equivalence and interoperability of divergent climate change policy approaches** – recognizing the diversity of national circumstances and governmental strategies
 - **protocols for the measurement of greenhouse gases (GHGs)** associated with traded goods – on a sectoral basis and in association with relevant partners including companies and relevant industry associations
 - foundations for a **global social cost of carbon** (or GHGs more broadly) in cooperation with the World Bank, International Monetary Fund (IMF), UNCTAD, and OECD, among others
 - how **equity considerations** should be addressed in the context of those work streams including border carbon adjustment (BCA) mechanisms, and inclusive processes for setting BCA standards and the need for capacity building, innovation strategies, and financial support for developing countries

The initiative should also include work programs on other sustainability standards:

- discussion of circumstances under which process and/or production method (**PPM**)-based sustainability standards should be determined to be WTO-consistent

- discussion of **trade effects of new sustainability standards** such as: (1) proliferation of private sustainability standards, which can impede market access, especially for MSMEs, (2) e-commerce, (3) digital commerce, (4) traceability rules, (5) plastics, and (6) emerging circular economy expectations – with clear principles to avoid the transfer of toxic materials and other non-reusable waste to developing nations.
5. **Champion developing countries' participation** and full integration into the emerging sustainability-oriented economy by:
 - **recognizing the particular situation of least developed countries** (LDCs), small island developing states (SIDS), and other frontline vulnerable states/communities
 - identifying and supporting new competitive opportunities for developing countries in the sustainable economy
 - mapping and streamlining existing sources of **technical assistance, capacity building, innovation support**, and finance for sustainability across trade-related organizations
 - **rechartering the ITC as a Sustainable Trade Center** with an expanded mandate to help micro, small- and medium-sized enterprises in the developing world to meet market expectations regarding sustainability
 - commit to a **Sustainable Trade Transition Fund** to bring new resources to bear to support developing nations with all of the items outlined above.
 6. Agree that **all Trade Policy Reviews will include a trade and sustainable development section** and that all trade negotiations will be preceded by, and assessed ex post in accordance with, **Sustainable Development Impact Assessments** that evaluate sustainable development impacts across the spectrum of UN SDGs.
 7. Commit to inclusive, transparent, and equitable processes and outcomes in all WTO negotiations and activities with ongoing assessment of performance against this **equity and justice commitment**.
 8. Advance a **two-track approach to consensus-based decision-making** in the WTO based on: the dictionary definition of *consensus* (“most parties mostly agree” – not unanimity) for housekeeping activities including naming of

committee chairs, budget review and approval, agenda setting, committee work plans, and secretariat research projects – but keeping the traditional WTO definition (“no party present objects”) for negotiations regarding essential state interests. Members are encouraged in this context to adhere to the *flexible multilateralism* and *responsible consensus* concepts advanced by Singapore and others – and to take *reservations* on specific issues or elements of agreements with which they disagree rather than blocking consensus.

9. Launch a process to restart negotiations that aim to **eliminate tariffs and non-tariff barriers for sustainable goods/services/technologies**, including establishment of an independent commission to evaluate probable sustainability effects – and thus eligibility for inclusion in the proposed new agreement.
10. **Revitalize the WTO dispute settlement process** with an emphasis on using informal procedures before resorting to formal cases – with a commitment to faster timelines, more limited scope of review, greater transparency, respect for national policy priorities, more sharply focused decisions, and ready access to relevant expertise – including sustainability experts.

While the full agenda set forth in this Report will require significant processing and discussion to advance, the Project team believes that many of the above action items could be advanced at MC13. Some elements of the reform agenda could be ready for definitive action, while others should be embedded in a commitment to a new set of work streams designed to operationalize the WTO's sustainable development mandate – and to lay foundations on which negotiations might proceed in the years ahead. Given the scope of the agenda, our reform proposals can also be advanced and adapted beyond the WTO, by countries, organizations, academics, regional communities, and civil society groups which we maintain are all integral parts of the multilateral trade system and bear responsibility for its sustainability and stewardship.

The reform proposals put forward here are meant to launch a conversation and to stimulate debate. In this regard, the Remaking Global Trade for a Sustainable Future Project team will be conducting extensive outreach over the coming months to get feedback on the agenda set out here, obtain suggestions about how to refine or reframe the reform proposals, identify obstacles to progress and thoughts about how to overcome them, and seek guidance on the political path forward. This process will include discussion about who might play a leadership role in delivering the transformative change required to establish a trade system that delivers on the sustainable development mandate and meets the needs of the global community for improved international economic cooperation.