

Adjusting trade to defuse global injustice and climate change

The advantage of trade is that it could help people get out of poverty. Shared wealth & knowledge has the potential to develop quality of life in the world. However the dangers to civilisation of consumerism & climate change, the latter highlighted by disasters in Southern Asia and the USA, are becoming increasingly clear. Apart from the loss of lives, rising sea levels and extreme climatic conditions are a threat to sea level or near-sea level regions, many of which provide some of the most fertile and productive agricultural land, and the location for many important business/industrial centres. The Global Commons Institute and leading experts such as Prof. James Lovelock agree that action must be taken fast to counter further climate change. The unwillingness of the US government to commit to international treaties and objectives towards more sustainable environmental policy indicates that Europe must lead the way in this area.

At STEERglobal, we are aiming to develop, with others, a mechanism that would free existing financial resources to fund strategic actions in the area of environmental sustainability. Such a mechanism could reduce some of the great profits from the more highly polluting activities. One concept that we believe provides scope to source these funds is the Currency Advantage or Import Advantage, that wealthy countries automatically have when they spend their valuable currencies in 'poor' countries. (A similar ratio has been used in past studies to allow for the reduced comparative cost of living in poorer countries in dollar or sterling terms, that is, the purchasing power of the stronger currencies). The traders who benefit most from the Currency Exchange Rate Advantage are frequently the same ones who cause enormous pollution and resource depletion by transporting goods between poor countries of production and rich countries that provide the market for the goods, for example by air. [Although these activities contribute to economic growth, the current trade system tends to avoid contributing to the cost of pollution caused and little allowance is built in to allow for resource depletion or the research needed to avoid such depletion, develop alternatives or defend against sea level rise. Therefore only wealthy countries can do this research or benefit from clean technology and clean transport etc.].

Using the Advantage as a guide (recognising differing labour rates, costs of living and production), the difference between the cost of comparable goods and the value released when re-sold in the importing country, companies and traders operating in this way would be subject to a levy, which might equally be re-named the Environmental Tax on Imports (ETI) [see chart]. The revenues from ETI would be split equally between the country of production and the country of destination of the product. The body responsible for the collection and use of this levy would then allocate it for projects promoting long-term environmental sustainability, such as renewable energy and sustainable transportation improvements, etc. This would also help to even out some of the inherent imbalances between poor and rich countries in terms of vulnerability to natural disasters and overcome some of the technological disadvantages of the poor, but by enhancing funding to the above projects a stable system of allocation in these areas would actually boost healthy trade and investment.

Existing production would be relatively unaffected, so the proposed solution is an ideal way to ensure that resource users pay a fairer contribution. As an addition to such measures as carbon taxes, ETI (operating like VAT) stimulates renewable energy in both producer and consumer regions of the global economy introducing a more stable funding regime independent of the vagaries of consumer/financial markets. We believe UK/EU treasury has the potential to understand how such an adjustment to international trade could return some of traders' profits in a more managed way, in the process reducing economic shocks, the problems of climate change and loss of industry in the 'developed' regions such as Britain. We call for the EU to pilot a trial soon.

Sustainability in
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