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C H A N C E



**TRADE POLICIES
AND THE ENERGY
TRANSITION**



— THOUGHT LEADERSHIP

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TRADE POLICIES AND THE ENERGY TRANSITION

Businesses across all parts of the global economy are committing to climate action, but the pace of change needs to accelerate and energy transition will be key, say business leaders in a **report from Clifford Chance and the World Economic Forum**.

Many of the companies interviewed for the report stress the need to continue scaling renewable energy infrastructure, given the key role electrification can play in decarbonising a wide range of activities. In this context, some companies identified long delays in obtaining planning consents for the generation of renewable energy, and noted that in some jurisdictions a lack of certainty in consenting criteria and time frames disincentivised investment in renewables. "Companies note that decarbonisation cannot be achieved by electrification alone and we need an enabling policy framework across the full range of sectors and technologies – including for EVs, domestic heating and industrial processes. Significant investment is also needed to develop emerging technologies and processes that are not yet commercially viable," says Russell Wells, a Clifford Chance Partner specialising in energy transition.

The scaling up of clean energy use for transport, electricity and heat, manufacturing and construction, thereby replacing traditional hydrocarbon energy sources, will be critical to achieving the goals of the Paris Agreement. The scale of change required is huge, with just one-fifth of global energy supply coming from low-carbon energy technologies such as nuclear and renewable power generation, and green hydrogen. Decarbonising the power sector will by itself achieve only one-third of the total CO₂ reductions that will be needed to achieve net-zero

emissions. The electrification of significantly more of the economy will require global power generation capacity to be between two and five times greater in 2050 than today. A massive increase in low-carbon hydrogen/ammonia production will be needed for sectors in which the use of electricity is difficult, such as primary steelmaking and maritime shipping.

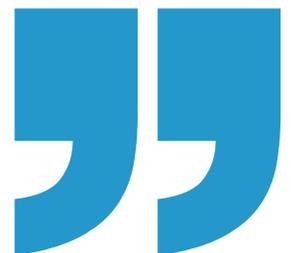
Technologies related to energy efficiency – such as energy-efficient motors, renewable energy production, electric heat pumps, electric vehicles (EVs) and components, battery storage technology, energy management systems, heavy-duty fuel cells, electrolysers and eco-responsible packaging – will be essential for many businesses to decarbonise. Global trade policies will ideally support these technologies by eliminating barriers to trade in environmental goods – being products manufactured for the purpose of the protection of the environment and the management of natural resources.

The 2022 iteration of the Harmonized Commodity Classification and Coding System (the Harmonized System, or HS) provides new opportunities to measure and facilitate the elimination of barriers to trade in key environmental goods. Regardless of this progress, however, there will always be technical and political complexities inherent in determining what precisely constitutes an “environmental good”. Many interviewees stressed the importance of not letting the perfect be

the enemy of the good. "Businesses recognise that tariff reductions for environmental goods would signal that governments are serious about aligning trade and climate policy," Wells adds. Additionally, the huge shift in investment towards a greener economy that will occur over the coming years suggests that, even if tariff reductions involve some products that can be used for either environmental or other purposes, the benefits would flow overwhelmingly to goods used for environmentally beneficial purposes.

Our report outlines a range of measures that can play a role in accelerating the energy transition, including reducing tariffs on climate-friendly goods. Countries should create a living list of these goods, and business can further identify and quantify essential technologies and input critical for decarbonisation on a sectoral basis.

To find out more you can read the full report *Delivering a climate trade agenda: Industry insights*, [here](#).



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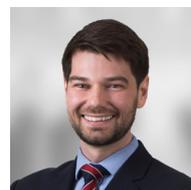
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