

G2 HACKATHON CHALLENGE

How to Make the WTO
Fit for Future Trade



INSTITUTE OF INTERNATIONAL
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Geneva Trade
Platform

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2021 Hackathon Submission

Virtual Water

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Watch the Video



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Question #1

Define the substantive issue that your team is addressing, why it's a problem, and why your team believes the WTO is the right forum to address it.

While two-thirds of the global population reels under severe water scarcity, the global economy continues to encourage exportation of goods and services from water-poor countries via cross-border trade in goods and services. Virtual water, the quantity of water required to produce a product, service or process, remains absent from WTO agreements and negotiations, likely a reflection of the WTO's hesitancy to engage in environmental regulations. Manufacturing, the back-bone of many national economies, maintains the largest virtual water footprint behind agriculture and underlies many countries' water challenges. As global trade is lauded, countries continue to function in an environment of unequal water distribution and water as an unpriced commodity. Countries are therefore incentivized to deplete their limited water resources in order to continue to capture the economic benefits from the exportation of produce, textiles, technology and heavy industries.

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Proposals to address the challenges of trade in virtual water and the price of water have been put forward by several experts. Some of the few practical solutions include (1) domestic water pricing, (2) international coordination of water pricing, (3) water labeling and (4) international standards or guidance on water. However, simply raising the price of water or placing tariffs for water have largely been ruled out because such an increase in price would be insignificant to investment and trade decisions as compared to other factors such as availability of land, labor costs, access to technology, national food policies and international trade agreements. Furthermore, even if water is priced, the cost may not outcompete the comparative advantage a water-poor country has in producing a water-intensive product. Although the WTO is in the best position to negotiate international coordination of water pricing, such an effort would likely prove politically unfeasible. Water labeling would likely violate article 2.1 of the TBT agreement, as demonstrated in US-Tuna II, because a water label would likely be found as de facto discrimination. Although international standards or guidelines could encourage particular behavior while not requiring or regulating particular action, reaching consensus may prove challenging. Learning from the pitfalls of the proposed solutions above, a more nuanced solution must include a mechanism to motivate behavioral change while also providing a forum for countries to build consensus on virtual water trade practices.

Tracking trade in virtual water is a complex undertaking that requires working with rules of origin to understand where components are sourced in order to calculate the total flow of water. The WTO regularly undertakes such calculations, such as in determining countervailing duties, and is also established as a forum for multilateral consensus building. Although there are many NGOs and nonprofits working in the water sector, the WTO is uniquely positioned to enforce practices and ensure compliance. Were the WTO to build a framework to monitor the global flow of virtual water, the WTO could compile data and establish precedent to support the inclusion of language on virtual water into global trade agreements and thereby chart a new course for trade in virtual water.

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Question #2

Propose a specific treaty text, or more informal commitment/declaration text, that addresses either the concern or a particular, detailed aspect of it.

Joint Statement on Virtual Water

Recognizing that water is a finite and irreplaceable resource that is fundamental to human well-being;

Acknowledging that water is only renewable if well-managed;

Emphasizing the role of virtual water, that is to say the water embodied in the production of food and fiber and non-food commodities, in international trade;

Recalling Goals 6 and 17 of the 2030 Agenda for Sustainable Development focusing on water and sanitation, and improved and more equitable trade across borders; and,

Satisfied that there is growing consensus that virtual water requires more attention from the multilateral trading system, particularly from the WTO.

We have decided:

To recognize the importance of water as a limited resource essential to human life and production of goods; and,

To create an Informal Working Group on Virtual Water and Trade-Related Aspects of Water in Manufacturing and Processing at the WTO that is open to all members. With the utmost degree of transparency, the Group will develop a framework to address the issues related to virtual water taking into account the trade needs and challenges faced. The Group will periodically share information on its work and reach out to other Members to invite them to join.

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Question #3

Suggest a legal/technical or institutional way to implement your textual proposal within the broader WTO framework (500 words)

WTO members should issue a Joint Statement on Virtual Water. This Joint Statement Initiative would recognize the importance of water as a limited resource fundamental to human life, acknowledge the significant, yet hidden role of water in international trade, and create an Informal Working Group on Virtual Water and Trade-Related Aspects of Water in Manufacturing and Processing. The goal of the JSI is to shift the global attitude toward water and virtual water to encourage long-term change, rather than forcing obligations or regulations, which would likely be met with hostility.

The JSI will establish language around the essentiality of water and why and how trade impacts global water supplies. Although other agreements, such as the Agreement on Agriculture and the Agreement on the Application of Sanitary and Phytosanitary Measures, hint at the role water plays in trade, the WTO has yet to fully articulate a position on water and trade. A statement on the importance of water and a definition of virtual water will be pivotal in placing water on the WTO agenda and persuasive and motivating evidence for countries to consider altering their water practices.

The Informal Working Group will primarily be charged with collecting data, calculating global trade in water, and publishing reports on the status of virtual water trade. The Group will empower the WTO and its Members with a better understanding of the depth of the global water challenge and, by sharing such information publicly, will motivate behavioral change. The JSI will be responsible for outlining possible future solutions, such as water recycling, reducing the quantity of water used in production, a rating system, possible labeling requirements, etc. The Group would ultimately suggest the best way to regulate virtual water within the WTO.

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Many countries are aware that our water supply is finite and of the need to develop sustainability. Water is an essential resource, and many of the world's freshwater sources are being drained faster than they are being replenished. While climate-change-related arguments can be polarising, water sustainability is a global issue affecting both human and goods water consumption, which has causes other than climate-change. Furthermore, ensuring the longevity of the world's water supply can hardly be framed as negative. Thus, delegations willing to push this issue forward should emerge.

The political rigmarole of defining water to include it within the WTO's ambit requires further research and would likely be met with some backlash. Besides, in the current state of affairs, an Agreement would not only be practically unenforceable but also risk disproportionately affecting developing countries, where production is often outsourced. So, it is neither politically nor practically possible to implement the proposal through a binding text. A JSI, however, does not require unanimity, as the Statement will indicate which delegations have requested its circulation, leaving room for initially reluctant delegations to join later. Furthermore, a JSI does not create a binding commitment and delegations will have their voices heard through the Working Group, which may increase their willingness to sign onto the JSI.