



# CLIMATE CHANGE, AGRICULTURE AND AID FOR TRADE: HOW COULD, AND SHOULD, AID FOR TRADE AND CLIMATE CHANGE FINANCE WORK TOGETHER TO ADDRESS THE CHALLENGES FACED BY THE AGRICULTURAL SECTOR IN POOR COUNTRIES?

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## EXECUTIVE SUMMARY

**Agricultural trade flows are, in part, dependent on the interaction between inherent comparative advantage, which will be subject to the changes in climate, as well as trade policy. Not only is the agricultural sector highly vulnerable to climate change, it is also one of the most distorted and heavily influenced by a wide range of local, regional, national and international trade policies.**

Even if the most ambitious climate change mitigation measures are adopted, global temperatures are likely to increase by at least 2 degrees Celsius since pre-industrial levels by the end of this century, if not sooner. The intensity and frequency of extreme climatic conditions is expected to increase, and the predictability of normal rainy seasons, decrease. Poor countries with a large rural economy depend on agricultural exports for their fiscal and socio-political stability; climate change could potentially jeopardise agricultural export earnings unless alternatives can be sought or climate-proof investments are made.

Some of the most dependent agricultural economies face an estimated loss of more than fifty percent of their total agricultural output by 2080, even when including carbon fertilisation effects. Countries such as Malawi may need to adapt to a 20% reduction in agricultural export earnings because of reduced agricultural output.

Beyond “climate-proofing” existing modes of production and investment, for which global “top down” estimates exist, but “bottom up” estimates are largely limited, other adaptation options may include those that relate to the transition to a low carbon global economy. New products and services are being demanded as part of the transition towards a low carbon global economy. Out of the total Greenhouse Gas (GHG) abatement opportunities and mitigation measures identified by McKinsey (2009), that need to be undertaken and adopted in order to avoid dangerous climate change, 70% in total are located in the developing world, and 90% of all “terrestrial carbon” opportunities (which account for 30% of total GHG abatement opportunities).

It is highly likely that avoided deforestation (REDD) will be included in the next commitment period of the Clean Development Mechanism (CDM). However, recognition of all types of terrestrial carbon could offer primarily agriculturally based societies, such as low income countries, potential new market opportunities in carbon trade.

Though the international architecture for climate change finance for mitigation and adaptation is new and growing, there is a considerable gap between identified needs and current pledges. There is also considerable variation in terms of the focus of funds. Mitigation finance available through CDM has been the largest source to developing countries to date. Efforts should

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be made to increase access to the mechanism for low-income countries.

Low carbon products being certified as such is likely to be a growing trend in the transition to a low carbon global economy. If this is undertaken using the more objective, but inevitably more costly, methodology, lifecycle analysis, some developing country agricultural exporters may benefit from the relocation of agricultural production from high to low emitting locations. However, without a well designed and approved carbon labeling and or “sustainability” methodology, there is a risk that some low carbon products are not recognised. As a result, some developing country producers will lose out.

Technical assistance for trade aims to help developing countries to design and implement trade policy effectively and producers within them to be competitive, given the policies, markets, products, and conditions which face them, now and in the future. Climate change and the conventions in response to this will affect what is produced, what is traded, trading rules, the standards traded goods must meet, and the regulations that they must follow.

Ensuring that a development program uses trade efficiently and is consistent with limiting climate change and achieving a sustainable pattern of production, should be part of any aid program. In practice it is already difficult to separate funding for adaptation or mitigation for climate change from normal adaptation to new trading problems or opportunities, and this will become increasingly difficult as taking account of climate change becomes a more standard part of project analysis. That targeted assistance should be additional to

normal ODA does not mean that it should be separate from it at the level of programs or projects, but any new purpose for Aid for Trade (A4T) would require additional funding to avoid diversion from existing needs.

There is much scope for climate change finance and existing trade facilitation mechanisms, such as A4T, to work together to address the challenges of climate change. Many of the donors that have provided mitigation and adaptation finance are also involved in trade-related assistance. However, the fact that there are not yet checks to ensure compatibility, suggests that coordination between institutions and programs needs to be improved. This may, at the same time, serve to reduce potential conflicts between competing demands (and agendas).

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The full study is available online at <http://ictsd.org/climate-change/agriculture-and-biofuels/>