



CLIMATE CHANGE AND TRADE ON THE ROAD TO COPENHAGEN: A POLICY DISCUSSION PAPER

By ICTSD

GLOBAL PLATFORM ON CLIMATE CHANGE, TRADE & SUSTAINABLE ENERGY

December 2008

EXECUTIVE SUMMARY

The international distribution of the cost of climate change mitigation and adaptation is at the centre of the climate change negotiations. As such, economics and the use of markets are set to be important elements of advancing international co-operative action on climate change. Three categories of economic and trade-related concerns are likely to influence the process and outcomes of the negotiations; incentives for participation by developing countries (such as transfer of technologies and provision of financial resources), leakage and competitiveness in industrialized countries, and trade and development concerns of developing countries.

All of these economic and trade-related issues have implications for the on-going negotiations on: 1) mitigation, 2) adaptation, 3) technology development and 4) financing under the UN Framework Convention on Climate Change.

Mitigation

Standards and technical regulations provide a vehicle for promoting energy efficiency, as well as credible solutions for monitoring, measuring, verifying and reporting greenhouse gas emissions and their trading.

While carbon-labeling schemes provide positive product differentiation and market opportunities, they also can represent obstacles to market entry. The WTO rules can play an important role in fostering a market transformation towards greater efficiency, while avoiding unnecessary trade distortions. Any future carbon-labeling schemes would need to be simple, transparent and involve sufficiently low transaction costs to include small countries and players.

While agriculture and forestry cumulatively account for over 30 percent of global carbon emissions, agricultural mitigation options are found to be more cost competitive than mitigation efforts in other sectors. Market-based tools, such as certification of

forest management and labeling of forest products, are one option to promote trade in forest products from sustainably managed forests.

International competitiveness and trade have always been a consideration underlying multilateral negotiations to address climate change. While competitiveness concerns have been more related to the debate over border tax and carbon adjustments and leakage, it is important to also acknowledge that there are a number of climate change-related measures in various sectors that would also affect the competitiveness of developing countries.

Sectoral agreements could help address some of the international competitiveness issues. Developing countries have cautioned, however, that these might open a backdoor to new standards and obligations that they are unwilling to take on.

Regulating emissions from the use of bunker fuels, both for air and maritime transport, would potentially mean rising costs for moving goods and people around the globe, resulting in potential implications for international trade and service sectors, such as tourism. This could affect many countries, including small island developing states (SIDS), which greatly depend upon mono-crop agricultural production, export, and tourism.

Adaptation

Sectors such as agriculture, that provide the greatest trade potential for many developing countries will be most affected by climate change, and therefore the most in need of adaptation. Geographical changes in food production are likely to affect patterns of international trade, with gains in some places and losses in others. As many poor countries depend on export revenues from agriculture, these economic implications need to be given careful consideration in trade and climate policy processes.

Technology Diffusion

Rapid development, diffusion and transfer of clean technologies will be key to climate change mitigation and adaptation. Trade policies can expand the market for climate-friendly products, and protect and reward innovation without constraining access to relevant technologies.

CLIMATE CHANGE AND TRADE ON THE ROAD TO COPENHAGEN: A POLICY DISCUSSION PAPER

By ICTSD

A range of economic and trade-related instruments, such as tariff liberalization for climate-friendly technologies, provide opportunities for multilateral action to promote climate-relevant innovation and technology transfer, thus creating an “enabling environment.”

While intellectual property rights have long been a tool to promote innovation and the dissemination of new ideas and inventions, in some cases, the excessive scope or level of protection actually provides a disincentive for further research and development. In addition, they may be an obstacle to access for the broader public, and therefore a balance will need to be achieved between patents and access to climate-related technologies.

Financing and Investment

Three trade policy areas can be considered in the relationship between financing for climate change and trade policy regard; subsidies, investment and Aid for Trade.

For many clean technologies, such as renewable energy technologies, to achieve market penetration some form of government support will be needed, including through the granting of subsidies. As in any other sector, production and consumption-related subsidies are affected by a number of trade rules and principles.

How trade-related investment measures affect private investment flows relevant to climate change mitigation and adaptation becomes an important consideration. This will need consideration by trade, investment and climate change policy-makers seeking to attract greater private investment or as they draw up investment agreements or chapters of bilateral and regional trade agreements.

The WTO work program on Aid for Trade (A4T) aims to mobilize additional funding to help poor countries overcome supply-side constraints that hamper their ability to benefit from the multilateral trading system. Aid for Trade can anticipate possible climate impacts on trade-related infrastructure and respond accordingly in the design, implementation and financing of relevant projects.

Conclusion

A strong multilateral regime that effectively leads to the stabilization of greenhouse gas concentrations in the atmosphere at a safe level will only be possible if such a regime also provides real economic incentives,

effective technology transfer provisions and appropriate cross-border financing mechanisms.

As such, economic and trade-related instruments are bound to be critical determinants in the design of the framework, and the implementation of a post-2012 climate regime. The trade regime provides opportunities for using markets to support action on climate change. From a strategic perspective, it must be recognized that the Doha Round is in its final phase.

Many of the opportunities for using markets to support action on climate change will need to focus on the ongoing negotiations under the United Nations Framework Convention on Climate Change (UNFCCC). Such efforts will aim at brokering a highly needed global consensus on what is increasingly referred to as the economic architecture of the post-2012 multilateral climate regime.

A successful deal in and after Copenhagen would send the necessary signal and provide the much-needed opening for further reform of the multilateral trading system. Success would mean it could better support global action on mitigation of, and adaptation to, climate change.

ICTSD Programme on Trade and the Environment, Trade and Energy Series, December 2008.

The full study is available online at: <http://ictsd.org/climate-change/linkage-between-trade-policy-and-climate-change-communities/>



ISSN: 1992-1675