



GREENHOUSE GAS REDUCTION POLICIES AND AGRICULTURE: IMPLICATIONS FOR INTERNATIONAL TRADE DISCIPLINES

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EXECUTIVE SUMMARY

Climate change and the policy instruments that are emerging as a response to this phenomenon pose a multitude of challenges to the multilateral trade system. Both are likely to have an impact on agricultural production. There is also a potential for conflict with World Trade Organization (WTO) rules; both through the choice of policy instruments to address climate change and by the way in which governments react to pressures to avoid or deflect the costs of climate change mitigation and adaptation.

This paper assesses the implications of domestic policies designed to reduce greenhouse gas (GHG) emissions from agriculture and to enhance the role of agriculture in GHG mitigation in the context of existing and future WTO disciplines. In terms of the current policy debate, three key questions arise:

- Should subsidies be used to promote the reduction of GHG emissions in agriculture or an expansion of its mitigation activities?
- Should agriculture be included in cap and trade (CT) schemes? And;
- Should one continue to promote biofuels?

First, rewarding beneficial climate change mitigation in the agricultural sector is both possible and most probable. The approach will likely combine best-practice promotion with the tailoring of existing subsidy systems to encourage change. Although foreign competitors could challenge such subsidies, they would appear to be consistent with trade rules if they are part of a comprehensive environmental program. The main constraint from the viewpoint of trade rules is that, in order to qualify for the environmental component of the green box under the WTO Agreement on Agriculture (AoA), subsidies should be limited to the extra costs incurred by farmers. Tying current direct payments to sequestration or other beneficial aspects of farming activity may be subject to challenge, as they would almost certainly exceed the additional costs involved. Moreover, such a link would weaken the claim that the payments are unrelated to current production activity and hence trade-neutral. Alternatively, the green-box criteria may need to be clarified in order to reflect desirable policy.

Second, including agriculture in a CT scheme poses a number of technical problems, including the fact that monitoring farming activities involves a large number of firms employing a wide diversity of technologies. Standard emission factors for crops and livestock production are not at present considered very reliable. Much of the domestic burden of the CT system is lifted if initial permits are given out rather than auctioned. Agriculture could argue for a significant free distribution of permits and

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combined with the ability to sell permits if emissions are reduced, this would constitute a subsidy. Foreign competitors might challenge the subsidy element, particularly on export crops.

It is more likely, however, that the agricultural sector will not be required to obtain permits but will still be involved in a cap and trade market by being allowed to sell offsets to others. This also raises the issue of whether such provisions constitute subsidies. Farming practices that sequester carbon could benefit from such a scheme, although funds would be derived from the market for offsets rather than from the government in the form of permit allocation.

Third, climate change mitigation schemes at the national level will be enacted in the context of multilateral environmental agreements. Thus, the issue arises as to whether there should be a global obligation to incorporate agriculture in such schemes. Considering that the largest (and growing) share of agricultural greenhouse gas emissions occurs in developing countries, for a global CT scheme to be both effective and fair, it must facilitate inclusion of developing country producers, despite the fact that they have limited ability to undertake monitoring, reporting and verifying (MRV).

The promotion of biofuels also raises questions in connection with climate change mitigation: the contribution of some biofuels (e.g. corn-based ethanol) to GHG reduction has been brought into question. Subsidies tied to specific uses of farm commodities have unintended consequences on food supplies and prices, and tying such subsidies to climate change goals is likely to confound an already confused situation. Given these complexities, the aim should

be to identify and address the positive and negative aspects of farming on atmospheric GHG concentrations that are uncontroversial and relatively easy to measure.

Domestic climate change legislation is constrained by international trade obligations, but a carefully crafted program should not raise insuperable problems. It should be possible to devise domestic schemes that contribute to effective international action. However, an international consensus on what measures are likely to be effective is crucial for avoiding trade disputes. The move towards “decoupled” payments unrelated to price and current output has provided an opportunity for such a consensus. Decoupling these payments in such a way that climate change mitigation is encouraged without jeopardizing food security may be a constructive first step.

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