

Ad hoc Expert Group Meeting on  
**Domestic Requirements and  
Support Measures in Green Sectors:  
Economic and Environmental Effectiveness and Implications for Trade**

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Addressing Local Content  
Requirements in a  
Sustainable Energy Trade Agreement

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# Addressing Local Content Requirements in a Sustainable Energy Trade Agreement

Expert Group Meeting  
UNCTAC

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# Rise of Local Content Requirements

- \* LCR: percentage of intermediate goods used in the production of renewable energy projects to be sourced from domestic manufacturers
  - \* 1) Precondition to receive government support such as tariff rebates
  - \* 2) Eligibility requirement for government procurement in renewable energy projects.
- \* 2008 financial crisis + stalled international negotiations at the WTO on trade and the environment and on climate change



LCRs devised at the national level as a tool of green growth policy but also affect trade

# LCRs affecting Trade

- \* Estimated 117 new LCRs have been imposed since the onset of the financial crisis and Great Recession early in 2008
  - \* Taken together, they may have adversely impacted around \$1.1 trillion of world trade, about 6 % of world trade in goods and services (PIIE LCR study estimates)
  - \* Only around 20 of these have been applied in the renewable energy sector
- \* Potential trade impact of LCRs that affect renewable energy products / projects estimated to impact around \$100 billion of trade annually (e.g. targeted at wind turbines, solar panels, biomass, or contained in LCR measures that affect all GP projects)
- \* Recent cases highlight the questionability of LCRs under WTO law and difficulty of reconciling trade obligations with environmental objectives

# Arguments in Favor of LCRs

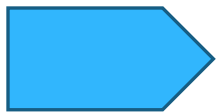
- \* 1) Political Economy Argument: LCRs augment public support for renewable energy projects
- \* 2) Infant Industry Protection: Policy makers – usually in developing countries – argue that LCRs protect infant industries from foreign competition
- \* 3) Green Job Creation: Proponents of LCRs in developed countries point to the creation of green jobs
- \* 4) Environmental Benefits: Potential environmental benefits of greater competition between renewable energy firms over the medium-term

# Arguments Against LCRs

- \* 1) Inefficient Allocation of Resources: Enterprises invest their resources in local inputs, making foreign products less attractive
- \* 2) Higher Power Prices: Businesses' manufacturing costs are increased, inflating power costs in the short term
- \* 3) Green Job Creation Doubtful: Increased cost of manufacturing could lower production and result in minimal or no job creation; also “jobs have no color”
- \* 4) Negative Impact on Trade: LCR acts like a subsidy → discourages foreign imports and stifles competition.
- \* 5) LCRs do not directly address the distortion and allow for the costs of environmental externalities to be “internalized”

# Alternative Policies for dealing with LCRs – non-trade distorting

- \* **ENHANCING PHYSICAL INFRASTRUCTURE** Governments should prioritize infrastructure investment that would facilitate production of renewables
- \* **PROMOTING GOVERNMENT-SPONSORED FINANCING** Developing countries often lack the financial capacity to subsidize renewable energy or the political capacity to impose carbon taxes
- \* Government-sponsored financing should be promoted, such as loan guarantees for developers of alternative, green energy



Exp: ADB project is offering to guarantee \$150 million in loans to Indian solar developers

# Alternative Policies for dealing with LCRs – non-trade distorting

## \* **TAKING BETTER ADVANTAGE OF PROGRESS IN RENEWABLES**

Renewable energy resources such as solar and wind are more competitive today against conventional technology in energy.



Guidelines could be set for the use of certain renewable energy products and less polluting energy sources required for commercial and household use

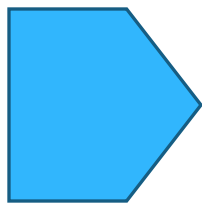
- \* **PROMOTING INNOVATION AND TRAINING FOR GREEN JOBS** Focus on green energy requires adapted training programs for workers which should be integrated with green industry needs and periods of on-site training. All portions of the energy value chain should be targeted. More effective way to promote 'green' jobs.



# Alternative Policies for dealing with LCRs – non-trade distorting

## \* REMOVING DISINCENTIVES TO PRODUCTION AND CONSUMPTION OF RENEWABLES

Cannot be policy consistent if distortions to production and consumption of renewable energy exist alongside LCRs



Remove subsidies on the production of fossil fuels; remove tariffs and other NTMs applied to renewable energy products in trade

## \* FOCUSING WTO DISPUTES ON LCRs OUTSIDE

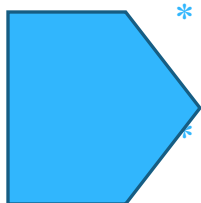
**RENEWABLE ENERGY** Many (most) LCRs have nothing to do with renewable energy; could agree to focus WTO disputes on these. This would lower trade tensions around ‘green’ issues and leave open question as to the legitimacy of LCR application in area of renewable energy.

# Growing international attention being focused on LCRs

## \* **APEC ECONOMIES :**

- \* 54 % of world GDP; 50% of world trade

- \* **HONOLULU LEADERS' DECLARATION 2011** pledged to



- \* “..... Eliminate NTBs, including local content requirements, that distort environmental goods and services trade.”

- \* “.....refrain from adopting new LCRs in the green energy area”. (Annex of the Declaration)

- \* **APEC Trade Policy Dialogue focused on LCRs – April 2013**

- \* APEC will consider a list of alternative policies and measures to LCRs at their meeting in July 2013 in Medan, Indonesia

- \* Will conduct case studies on how LCRs are impacting APEC economies' trade and investment interests

# Addressing LCRs in a SETA

- \* **A SUSTAINABLE ENERGY TRADE AGREEMENT** could present an attractive solution to coordinate national policies on LCRs with the aim of lowering the cost of renewable energy policies

- \* However a SETA without end-point would be permanent protection



SETA could set **TIME LIMITS** for existing LCRs on renewable energy products - 10 years

- \* **'PEACE CLAUSE'** – to avoid being taken to the WTO Dispute Settlement Body for existing LCRs during this agreed phase-out period of time

# RCR instead of LCRs in a SETA

- \* Countries might agree to a **‘REGIONAL CONTENT REQUIREMENT’** in a SETA - an RCR rather than an LCR - at least for scheduled projects during the agreed phase-out period in the renewable space
  - \* E.g. The RCRs might refer to certain wind turbine components or other ‘green’ products
- \* “Accumulation” of the LCR in the region constituted by the members to the SETA would effectively dilute its trade restrictive impact
- \* RCR – would prove less trade distorting than LCRs solely at the national level

# Addressing LCRs in a SETA

- \* **STANDSTILL:** Governments might also consider agreement on a moratorium or standstill on the adoption of future LCRs on renewable energy within a SETA
- \* **LCR CAP** could be set in a SETA and maintained throughout the agreed phase-out period or could be agreed as a permanent deviation from existing rules
- \* The appropriate LCR rate would vary by sector and would depend on:
  - \* 1) Size of the green industrial sector
  - \* 2) Opportunity cost of capital

# Why use a SETA to address LCRs?

- \* 1) Facilitate alternative or innovative approaches to liberalizing sustainable energy goods and services
- \* 2) Provide a framework conducive to assessing the linkages between sustainable energy goods and energy services
- \* 3) Serve as a useful 'laboratory,' where rules and disciplines pertaining to sustainable energy could be clarified and take shape
- \* 4) A SETA agreement would reduce the risk for repeated trade disputes at the WTO and provide more clarity and certainty for business as well

# Thank You

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