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**Trade and
Climate Change Policies:
A New Phase in
the Relationship beyond
2015***



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Policies affecting international trade impact climate change. Conversely policies geared towards tackling climate change impact international trade. This multifaceted relationship will be entering a new phase as the underpinning policy landscape changes fundamentally in the light of possible outcomes expected from the post-2015 development agenda, the Sustainable Development Goals (SDGs) and a possible new climate agreement under the UN Framework Convention on Climate Change (UNFCCC). But even with or without global agreements, peoples, countries and companies recognize the imperative of acting decisively in fostering sustainable development and addressing climate change without undermining economic growth as manifested in the lead-up to and follow-up actions to the 'Future we want' outcome of Rio+20 Summit.

A collective transformation

2015 presents a unique opportunity for the international community in crafting a global agenda for sustainable development that is peopled-centered, environmentally sustainable, climate resilient, and development oriented. Attempts at resolving economic, social and environment challenges have been attempted previously. What is different this time is that the international community hopes unify and consolidate common objectives, specify quantifiable targets, mobilize financial and non-financial resources and reach international commitments at the highest levels encompassing all countries. **It is striving to negotiate outcomes that would be universal and applicable to all countries and thus, if robust and meaningful, their implementation will entail for the first time in many years a collective transformation of the global economy towards low carbon, resource-efficient, and socially inclusive development that meets the needs of current and future generations.**

This transformation will not only be economic; it will also be environmental in the sense of managing climate policies and adjustments in a manner that meets climate change imperatives without undermining economic growth and social development. In fact, the underlying rationale is not to focus on de-linking or isolating the negative interfaces between the economic, environmental/climate and social aspects, of which there are many and do need resolution; but to focus on the positive interfaces between them and harness them sustainably.

The overarching consideration is one of making this transformation a *just* and *equitable* one. For developing countries, this means growing economies, generating jobs and creating income earning opportunities. In this regard among the key principles in fostering sustainable development for developing countries are those of common but differentiated responsibilities in climate change, policy space in international trade and SDGs, and accessing adequate means of implementation including finance, investment and technology.

In regard to climate change and international trade, two sets of drivers are pushing the relationship to new levels. One driver is the negotiations under the UNFCCC that aim to achieve a legally binding climate agreement applicable to all parties to take commitments, voluntarily, to reduce greenhouse gas (CO₂) emissions and contribute to limiting global temperature rise to the agreed target of 2-degree Celsius above pre-industrial levels. Under the agreement taking effect in 2020, countries would have a window of opportunity to start adjusting economies towards lower emissions-growth between 2016 and 2020.

The extent and pace of structural transformation will be dictated in large part by the Intended Nationally Determined Contributions (INDCs), which countries are making towards reducing their emissions as part of the climate deal to be sealed at UNFCCC Conference of Parties 21st session in Paris in December 2015. From the early announcements by the major economies and emitters about the kind of commitments they intend to make binding for themselves, it is obvious that some very big changes are in the making. The effects of those emissions reductions will play out in production, market and investment as well as consumption patterns around the world.

For example, in November 2014, the US and China announced important ambitious emissions targets they intend to implement. The US declared its intention to cut its emissions to 26-28% below 2005 levels by 2025, keeping it on track for more than 80% reduction by 2050. China announced targets to peak CO₂ emissions by 2030, if possible earlier, and to increase the non-fossil fuel share of all energy to 20% by 2030. The EU had already agreed and is implementing a unilateral commitment to reduce overall greenhouse gas emissions from its Member States by 40% compared to 1990 levels by 2030.

The efforts to cut and/or cap emissions will play out as international trade, the second driver, is witnessing significant growth in international trade flows, especially stimulated by South-South trade. The last two decades have been characterized by unprecedented trade growth. International trade in goods and services has grown from about US\$ 5 trillion in 1994 to about US\$ 24 trillion in 2014, with the pace of growth affected by the global economic and financial crises of 2008. The ongoing effort in the WTO to conclude the Doha Round of trade negotiations, and in parallel the exponential growth of regional free trade agreements including proposed mega-regional agreements point to the phenomenon of countries continuing to seek and open markets, and produce for these markets including by integrating into value chains, global or regional, to expand opportunities for trade-led growth and development.

Establishing positive synergies between climate change and international trade policy

It is a principle of the UNFCCC (Article 3.5) that measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade. This includes mitigation and adaptation measures that can affect competitiveness of production and have protectionist effects. Other climate change measures that have an impact on trade include carbon trading schemes;

energy mix and energy use policies including for transportation; agriculture production and fisheries due to changes in climatic conditions, affecting large, medium and small agriculture and fish exporting countries; and transfer and diffusion of technology such as for clean energy.

The fact that the development per se is becoming an increasingly important component of greenhouse gas mitigation is recognized by the IPCC, under the term *co-benefits* i.e., complimentary benefits. Examples of such co-benefits include economic growth and development, poverty reduction, and improved air quality, health, energy security, job creation, biological diversity and water management. International trade has an important role to play in leveraging the various co-benefits.

There several possible aspects to this new relationship of achieving lower emissions and expanding trade at the same time.

First, export-led growth, especially in manufactures and value added goods and services, is significantly influenced by global value chains (GVCs). Already, 80% of world trade takes place within value chains, and around 60% of world merchandise trade is in intermediate goods. It is within global (and regional) value chains that countries will be finding various routes for upgrading and diversification production for exports. Integration into GVCs is a key factor in engaging more fully in international trade, pursuing diversification of economies and adding value to production. The greening of GVCs would contribute to mitigating environmental degradation and climate change, and in turn create green jobs. Green value chains can be developed for example in terms of a sector, such as biodiversity based goods through biotrade, or regionally in sector like agriculture, or by ensuring that the production of inputs for a chain are efficiency in terms of resources, material and energy use. The ocean economy offers a new frontier for developing countries to enter into conservation and sustainable use of oceanic resources like fish. At the same time, the value chains will play an important role as transmitters of resource and environmental costs. Minimizing and/or eliminating these costs and climate-proofing value chain development will be a challenge.

Second, the greening of GVCs resulting in the production of green goods and services, including climate friendly ones such as clean energy, implies also the creation of green jobs. **GVCs can serve to create green job opportunities along the value chain** and thereby combating the idea that any one country could monopolize green jobs, using for example policy measures such as local content requirements to localize production or trade remedies against imports. Take, for instance, photovoltaic modules, a product vital to the solar industry. Labelled as "Made in the US", much of the material used in their production is sourced from elsewhere: the glass, the encapsulant, the backsheet, and the junction boxes that go into these modules are sourced from China, Japan and Europe. At the same time, much of the equipment used to manufacture them is imported from Germany, Switzerland and the US.

Moreover, in there considering the creation of green jobs, there is a tendency among policy makers to exclusively focus on manufacturing, ignoring the many job-generating services that accompany manufacturing activity. For example, in the US, only 25% of all the 100,000 full-time workers estimated to be employed in the solar power industry are in manufacturing, the rest are in installation, sales and distribution, and R&D. Conversely, when the green product is not consumed locally, the accompanying jobs are not created. For example, due to very limited deployment of solar energy in China, and with 90% of all Chinese solar energy products being destined for export, the job-generating services and related jobs were not created. Governments and companies need to take account of these issues in developing and integrating into GVCs.

Third, the past years have seen momentum to liberalize trade in environmentally and climate-friendly goods, including clean energy goods, and services that can contribute to supporting transformation in economies towards low-carbon growth paths including through transferring and diffusing related technology. The WTO Doha agenda negotiations on environmental goods and services (EGS) can make an important contribution and thus needed to be revived and concluded. Plurilateral efforts to liberalize environment goods such as being undertaken in APEC to reduce tariffs on the APEC List of 54 Environmental Goods, and a small group of 14 like-minded WTO members to conclude an Environmental Goods Agreement, leading to global free trade in environmental goods. These initiatives to improve market access for EGS services should gain new and much-needed impetus in view of contributing to mitigating climate change under a new climate agreement. For example, the list of proposed EGS could be expanding the list to include products of interest to developing countries including biodiversity-based goods and services, organic agriculture and marine-based resources.

On a negative note, a clear trend can be observed toward the increasing the use of trade defense measures against renewable energy, including biofuels. This trend actually accelerated during 2012-2013 among major producers of renewable energy. More than 40 cases on antidumping and countervailing duty have been initiated since 2008 on biofuels, solar energy and wind products. The effectiveness of such measures in fostering climate resilience and not acting as disguised trade barriers needs to be discussed and clarified.

Fourth, a number of climate change mitigation tools have been developed that that provide practical avenues for enhanced contribution through trade and investment. The carbon trading systems and similar efforts ongoing is an example. Opportunities therein are examined and seized through for example platforms such as the African Carbon Forum in supporting African countries to take advantage of the clean development mechanism of the Kyoto Protocol, or the Latin American and African Carbon Forums. Another toolkit is REDD+ which looks in to reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries. Developing countries face the challenge of identifying REDD+ projects and mobilizing investment to develop them.

Fifth, shifting to a cleaner energy mix is essential to mitigating climate change. It will require countries to change the way in which they develop, access and use clean energy to power their economies and to meet the energy needs of their growing populations. The energy mix of countries is influenced by national policies (like green subsidies for renewable energy sources or technologies) that create markets and by demand and supply including from abroad through trade.

Even with very strong expansion of the use of clean, renewable energy and other low carbon energy sources, fossil fuels would still make up over half of global energy supply. The transition from dependency on fossil-based energy or clean energy sources thus will be a long term process. But actions are needed to sustain the transition. A reform on fossil-fuel subsidies has been identified as a key game changer. Over 110 countries had included mention of fossil-fuel subsidy reform within their submissions to the UNFCCC. Reducing tariffs and non-tariff measures on renewable energy products will also help.

Policy recommendations

The relationship between climate and trade policies should change toward **a more positive relationship in which climate policies with economic and trade aspects and trade policies with environmental and climate aspects are seen, regulated and implemented as mutually supportive in achieving sustainable development in the post-2015 period.** To realizing such a win-win scenario, the following recommendations are proposed.

1. Facilitate integration of developing countries into GVCs and taking measures to support production and trade in environment and climate friendly goods and services.
2. Bringing down the barriers to trade in environmental goods and services, including energy efficient goods and goods used in conjunction with renewable energy sources.
3. Ascertaining the economic and environmental effectiveness - and the trade impact - of measures affecting trade in environmental goods such as local content requires, trade remedies and green subsidies especially for energy.
4. Supporting the transition to greater use of clean, renewable energy and addressing related issues such as energy taxation and subsidies.
5. Accelerating and bringing greater clarity to green technology transfer and diffusion agenda within the multilateral trading system and within UNFCCC.
6. Monitoring climate change policy developments within any country where competitiveness and carbon leakage concerns have been raised.
7. Mobilizing UNCTAD's contribution in supporting the UNFCCC and its various bodies (e.g. the Subsidiary Body for Implementation) to oversee the implementation of a potential new climate agreement. UNCTAD can contribute on international trade, environment and climate change interfaces, including in areas to be identified by the UNCTAD XIV conference in 2016.