

## **CLIMATE CHANGE COP21 AND BEYOND: BRIEFING ON SDGs, INDCs AND THE ROLE OF THE INTERNATIONAL TRADE COMMUNITY**

**Talking points for Guillermo Valles, Director, DITC (morning session)**

### **SDGS, CLIMATE CHANGE AND TRADE: COMPLEMENTARY BENEFITS**

In my presentation, I wish to highlight some of the complementary benefits in terms of trade that can arise from addressing climate change. Some of these ideas are found in our Policy Brief No. 36 on Trade and Climate Change Policy Beyond 2015, copies of which are available in this room.

First, I will talk about the evolving framework for development that sets the scene for pursuing sustainable development in the years ahead, and within which international trade and trade policy will make a contribution.

- **This year 2015 has been marked by major global negotiations, building upon the acquis of several major conferences in the previous years especially the Rio+20 Summit.** The Addis Ababa Action Agenda from the 3<sup>rd</sup> Financing for Development Conference last July is very important as the financing framework for new development agenda replacing the expiring Millennium Development Goals. The special UN summit several days ago launched the 2030 agenda for sustainable development underpinned by the Sustainable Development Goals (SDGs). The climate change negotiations will culminate at UNFCCC COP 21 in Paris in about 2 months. Shortly after COP 21, the WTO 10<sup>th</sup> ministerial conference in Nairobi will address the unfinished business of the Doha Round. In early 2016, UNCTAD's 14<sup>th</sup> quadrennial conference will gather to discuss and identify trade and trade-related policy areas to implement the SDGs and foster sustainable and inclusive development for all.

- **As these negotiations come to close and with the FFD Conference and SDGs concluded, the sense of priorities to be implemented to reduce poverty and promote sustainable development has never been more aligned.** The 17 SDGs more explicitly address actions on global goals that will be *universal*, the successful outcome of the UNFCCC negotiations in Paris will be applicable to *all* parties with common but differentiated responsibilities, and the WTO rules, now covering the *bulk of the global trade*, would benefit from new disciplines from the Doha Round expected to reflect major development aspects.
- **The true legacy of 2015 will only be known once the Paris Climate Change Conference concludes.** There are important linkages among the 2015 negotiations and resulting agreements, and we now look forward to the apex event for the full completion of the 2030 agenda and beyond. Only with an outcome from Paris will we be able to say we have set the framework for the global development agenda for the next 15 years.
- **The climate negotiations have maintained a spotlight on minimizing emissions to avoid the threshold temperature of +2° Celsius, which is very important. The warming of the earth is bringing forth many changes in the environment that affect the well-being of peoples. But scant attention has been paid to longer-term development goals and approaches i.e the complementary benefits.** As the climate regime pursues a post-Kyoto agenda, the question is, how this agenda, fixed to a temperature threshold of +2° C, fits into the SDGs. After all, climate change is more than just about environmental degradation per se, but has to do with unsustainable drivers of development.
- **Aligning climate policies with sustainable development goals may provide the long-term trajectory, which would prove important in pursuing effective climate policy than short-term national emission targets.** The 2030 Sustainable Development Agenda addresses, among other things, climate change, its drivers and consequences. Thus, SDG 13 calls for urgent

action to combat climate change and its impacts, and recognizes the competence of UNFCCC in delivering on this global goal. SDG 7 calls for ensuring access to affordable, reliable, sustainable and modern energy for all. It is clear that the SDGs are inter-connected. For example, reducing global warming under a climate agreement will help in re-building and making more resilient the oceans and its resources like fish which is SDG 14, and the earth's natural biodiversity which is SDG 15. Increasing availability of renewable energy under SDG 7 will help to reduce CO2 emissions and mitigate climate change under SDG Goal 13.

Secondly, having highlighted the close interconnections between the evolving development frameworks, I will now discuss some of the trade aspects of economic transformation that will come about from a prospective climate agreement.

- There is every reason to believe that **countries may be entering a new phase in the relationship between climate policies, sustainable development and trade and will face challenges different than those in the past 20 years.** For a first time, we are now looking at a **collective transformation, not just for individual economies, but for the global economy as well. This is a long-awaited transformation in the global economy towards low-carbon, resource-efficient and socially inclusive development.** This transformation will require a massive reallocation of resources at the international level. While at the domestic level, it would require fundamental structural changes on a scale similar to the wave of economic reforms, which was accompanied by countries' joining the WTO. This would raise many of the equity and distributional concerns that have been central to UNCTAD's work in the past decades and now are at the heart of the 2030 Agenda for Sustainable Development.
- **The extent and the pace of this transformation will be dictated in large part by the so-called Intended Nationally Determined Contributions (INDCs),** which countries are making towards reducing their emissions as part of the Paris deal. From the early announcements by the major

economies about the kind for commitments they intend to make binding for themselves, it is obvious that some very big changes are in the making. For example, in October 2014, the European Union announced a 2030 greenhouse gas emissions reduction target of at least 40 per cent compared to 1990 levels. The US announced a 2025 emissions reduction target of 26 to 28 per cent of 2005 levels, and China announced plans to peak its carbon dioxide emissions and increase the share of non-fossil fuels in primary energy consumption to around 20 per cent by 2030. These big changes will entail major adjustments in production and consumption patterns domestically and they also mean big changes for their trading partners as the effects of those changes play out in market and investment patterns around the world.

- **From the trade perspective, several features of this transformation deserve particular attention.** The premise which is already established is that trade policies can have an impact on the climate change mitigation efforts of countries, just as policies for addressing climate change can influence trade among countries.
- **First is the shared challenge of enhancing economic growth through economic diversification as production processes are transformed toward being more greener and climate friendly..** Central to economic diversification today is participation in global and regional value chains. Already, 80 percent of world trade takes place within value chains, and around 60 percent of world merchandise trade is in intermediate goods. It is within global value chains that countries will be finding various routes for upgrading and diversification. The value chains will also play an important role as transmitters of resource and environmental costs as it is common for ten times more material resource to be used as input in the production process than eventually ends up in the final product. Thus the environmental costs of participation in global value chains needs to be factored as a key consideration.

- **Second, the transformation will require countries to change the way in which they use energy.** With rapid and large population growth, the demand for energy will increase tremendously and unless renewable energy sources are expanded to meet such demand, the use of fossil fuels will continue and emissions reduction targets will not be met. Moreover, in emerging economies in particular, as the middle class is growing they are able to use more electrical appliances, cars, and other forms of energy. So as prosperity increases, so does energy consumption, and the carbon dioxide (CO<sub>2</sub>) emissions from burning fossil fuels. This, in turn, aggravates climate change and eventually will compromise the prosperity that all nations legitimately strive for. The way out of this paradox, termed the "Prosperity Paradox" by UNCTAD's Deputy Secretary General in a recent meeting, is to produce and trade in cleaner and sustainable energy.
- **Third, one of the biggest challenges of climate change is not just powering new innovations in generating and using greener energy, but transferring those innovations from market to market,** especially into developing countries. The energy efficiency and renewable energy technologies needed to meet future energy demand and reduce GHG emissions below current levels are largely available. Countries can do their part to facilitate the flow of such technology by liberalizing trade in climate-friendly and energy-efficient goods as a part of the ongoing Doha negotiations. The past few years have seen significant momentum toward bringing down barriers to trade in clean energy goods. Examples include the APEC initiative to reduce tariffs on a list of environmental goods, and the pluri-lateral negotiations on an environmental goods agreement pursued by like-minded WTO members.
- Within the UNFCCC, it would also help to accelerate and bring greater clarity to the technology transfer agenda.
- **Fourth, there is a challenge of making this transformation contribute to job creation and thus address concerns of equity.** Countries realize that a transition to a greener and climate friend economy is bound to have an

effect in terms of jobs to be gained - or lost. In the manufacturing sector, many jobs created will be linked to the rise of global value chains. Such chains combat the idea that any one country could, in today's world, monopolize green jobs using trade measures such as local content requirements or subsidies. Take, for instance, silicon 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: from China, Japan and Europe. Another example is the PV cells that are produced in China and labelled as "Made in China" - much of the equipment used to manufacture them is imported from Germany, Switzerland and the US.

- While competing over green jobs, we must not tend to exclusively focus on manufacturing, ignoring the many job-generating services that accompany manufacturing activity. For example, it has been estimated that in the US, only 25 percent 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. The same goes for the US wind industry. It has 33,000 jobs in manufacturing, and 39,000 jobs in installation, operation and maintenance.

The point is that the production and trade of green products, including intermediate products, allows both production and trade to expand, while reducing damage to the climate and the environment. As green products displace otherwise brown products, the production and trade of green products lowers greenhouse gas emissions and other environmentally harmful emissions relative to business-as-usual. In addition, for every product there is a consumer. Green markets can result in trade expansion, as the market for green products is often much larger than the declining markets for local brown equivalents.

The last point I wish to raise for discussion relates to the follow-up collaboration between the trade community and the climate community once a climate agreement is in place.

- **The realization that the development agenda is an increasingly important component of GHG mitigation is recognized by the IPCC, under the term co-benefits or complementary benefits, as already mentioned.** Policies with multiple benefits, including mitigation or adaptation outcomes can be an effective way to muster domestic support for climate policies and achieve greater levels of ambition. Examples of such co-benefits include economic growth and development, poverty reduction, energy security, job creation etc. I have alluded to some of these issues earlier
- **In the aftermath of the Paris summit, these co-benefits as well as issues related to finance and technology would likely be placed on the agenda of the UNFCCC Subsidiary Body for Implementation (SBI), which works together with the Subsidiary Body for Scientific and Technological Advice on cross-cutting issues.** The **Subsidiary Body for Implementation** has reviewed and will continue to address would look into country experiences in dealing with climate mitigation policies and competitiveness challenges. This allows parties to draw lessons about sectoral (non-climate) impact of emissions, which depend heavily on the economic structure of the countries concerned - services, transport, building agriculture, energy generation, etc..
- The UNFCCC Technical Examination Process and Technical Expert Meetings would promote cooperation on raising pre-2020 climate mitigation ambitions by bringing together delegations, representatives of UNFCCC and experts from a variety of different international organizations.

- **UNCTAD and other trade agencies like the ITC and the WTO with their respective expertise in trade analysis, trade policy, trade promotion, trade agreements and negotiations and dispute settlement are well positioned to contribute to the work of these UNFCCC bodies to maximize positive benefits for climate, for the environment and for trade and development.**

**In conclusion, if 2015 has been the year of decision making on global goals, 2016 and beyond will be the years of actions and implementation. The challenges are huge but so are the expectations and opportunities. Trade can play a major role in the climate agenda in building climate friendly economic growth and development.**

**THANK YOU**