

Interplay between Climate and Trade Policies: Challenges and Opportunities for Developing Countries



Harro van Asselt (IVM, Vrije Universiteit Amsterdam)

&

Fariborz Zelli (German Development Institute)

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- Introduction
- Interplay between climate and trade policies: key issues
- Border adjustment measures in US and EU climate policy
- Border adjustment measures and developing countries
- Conclusions

- Trade (policy) affects climate change:
 - Trade in energy-intensive products
- Climate change (policy) affects trade:
 - Climate change impacts on agriculture
 - Climate policy may include trade-related measures

But:

- Little attention paid to trade issues in UNFCCC discussions/negotiations
- Discussions in WTO CTE without substantive results

Interplay between climate and trade policies: key issues

- Flexibility mechanisms
 - Exclusion developing countries from international emissions trading
 - Free allocation as a subsidy
- Transfer of climate-friendly goods, services and technologies
 - Intellectual property rights
- Trade-related policies and measures
 - Eco-labeling and renewable energy standards
 - Renewable energy subsidies
 - Tariffs on energy-intensive products



Border adjustment measures: the context

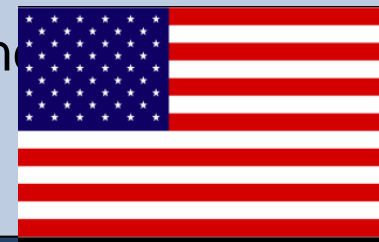
- Carbon/emissions leakage
 - Increase of emissions in other countries due to implementation of climate policies
- Competitiveness
 - Distortion of level playing field
- Developing country participation
 - Push for stronger mitigation action



Border adjustment measures in US climate policy (1)

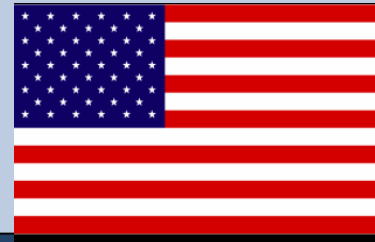
Background:

- Concerns over competitiveness/developing country participation
 - Byrd-Hagel Resolution (1997)
- Rationales for border adjustment measures
 - Credible threat ('stick') for 'free riders'
 - Level the international playing field
 - Carbon leakage
 - Garner support for cap-and-trade legislation
- The AEP/IBEW proposal
 - Endorsed by various industries, labour unions and (con) NGOs
 - Included in various bills



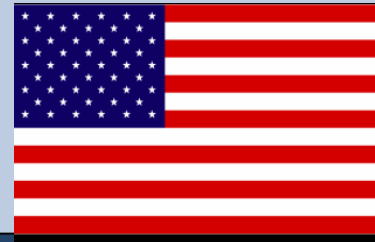
Border adjustment measures in US climate policy (2)

- Country coverage
 - Determining comparable action
 - Exemptions
- Coverage of goods
- Calculation of the adjustment
 - Sectoral GHG intensity in third country
 - Allowance adjustment factor
 - Economic adjustment ratio
- International negotiations/Timing



Prospects:

- Cap-and-trade legislation will likely contain competitiveness provision
- Border adjustment measures prime candidate
- Less detail in final legislation(?)
- Depending on Senate and Administration



- Coverage
 - Identifying sectors at risk: December 2009
 - Criteria and thresholds for sectors at risk: wide coverage
- Measures addressing leakage
 - Free allocation
 - Border adjustment measures
- What did **not** happen?
 - FAIR proposal



- Border adjustment measures and CBDR
 - Shifts mitigation burden to developing countries
 - Ignores mitigation action already taken
- A ‘stick’ without a ‘carrot’ is counterproductive
- Environmental and economic effectiveness can be questioned
 - Not covering the ‘problem’ products
 - Prone to gaming
- Violation of WTO law(?)

- Non-discrimination principles
 - Measure may target ‘like’ products
 - Most-favoured nation principle will likely violated
 - Environmental exceptions of the GATT
 - Justification only on environmental, not economic grounds
 - ‘Comparable action’ test may not meet criteria
 - Prior international negotiations important
- Still, legal uncertainties will remain!



International coordination as a solution?

- International coordination with affected developing countries
 - Avoid protectionism: fine-tuning coverage and adjustment level
 - Link to ‘carrots’
 - Forum: UNFCCC? WTO? Elsewhere?
- Domestic design of border adjustment
 - First assess if leakage is a problem
 - No immediate entry into force
 - Reimburse affected developing countries with proceeds

Conclusions

- Interplay between climate and trade is hardly addressed, but will become more pertinent
 - Different areas of overlap, but not all are conflicting
- Real chance of border measures, especially in US
 - Design of measures becoming more trade-restrictive
 - Measures may shift mitigation burden, and may not even be effective in addressing leakage
- International coordination could be useful, but questions remain
 - WTO challenge outcomes uncertain
 - Domestic design changes need to be considered

THANK YOU!

QUESTIONS?

Internet: www.vu.nl/ivm

E-mail: harro.van.asselt@ivm.vu.nl

