



Summary:

**The trade system and climate
action: ways forward under the
Paris Agreement**

**Working Paper
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About the project:

This is a summary of the first working paper of the Climate Strategies project on “Making the International Trade System work for Climate Change”. The international trade system – the World Trade Organization (WTO) as well as regional and bilateral trade agreements – has often been criticised from a climate policy perspective, with trade rules perceived by some as a barrier to stronger climate ambition. Yet trade rules can also be looked at as something that could potentially help to achieve transformative change in climate policy. The full paper can be accessed at: <http://climatestrategies.org/wp-content/uploads/2016/10/Trade-and-climate-ways-forward-1.pdf>. The project is funded by KR Foundation.

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Climate Strategies convenes networks of leading climate policy researchers to produce innovative, cross-cutting and policy relevant analysis aimed at opening new perspectives.

The international trading system – including the World Trade Organization (WTO) as well as regional trade agreements such as the Transatlantic Trade and Investment Partnership (TTIP) and the EU-Canada Comprehensive Economic and Trade Agreement (CETA) – has often been criticised from an environmental policy perspective. In particular, trade rules are perceived by some as a barrier to stronger climate ambition. Yet, trade rules can also be looked at as potentially helping to achieve transformative change. This aspect will matter for implementing the goals of the Paris Agreement.

Under the Paris Agreement, climate policy will be based on Nationally Determined Contributions (NDCs) to mitigation, adaptation and financial, technological and capacity-building support. At the international level, regular reviews of national efforts will help strengthen transparency. They are also expected to drive national ambitions to meet the goal of keeping the global average temperature increase well below 2° C. This new climate regime needs support from other policy regimes, and the trade policy agenda is among the most important ones. This is because trade liberalisation can help the uptake of climate-friendly goods and services and foster the deployment of clean technologies. In addition, national climate policy measures can collide with trade rules due to conflicting principles and priorities. With more ambitious NDCs expected in the future, it should be clear that trade-related climate measures will remain in the spotlight.

How the trade regime can be supportive for climate action

The international trade policy landscape has become increasingly fragmented. More regional deals have led to a diminishing role for the WTO. At the same time, however, the WTO dispute settlement system is asked to decide on an increasing number of cases that relate to national climate policies, mostly fostering renewable energy investments. These seemingly contradictory observations matter for the implementation of the Paris Agreement. First, many regional trade agreements include climate and environmental provisions, and could thus help prevent a regulatory race to the bottom. Second, the increasing number of WTO disputes over national renewable energy policy regulations points to the case-by-case nature of WTO rule application on the one hand, and to a more systemic conflict of national approaches with the WTO obligation of non-discrimination on the other.

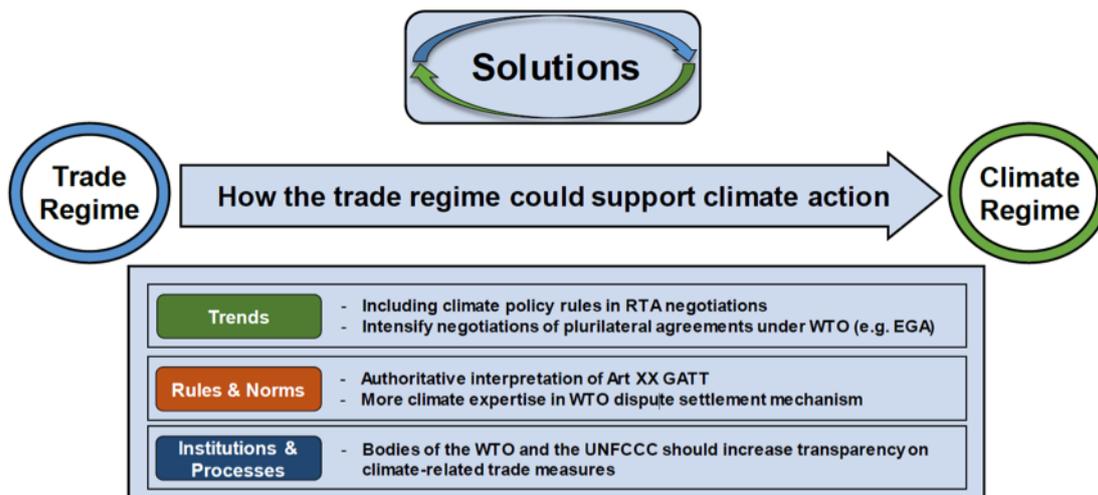
In this paper, we look into a set of issues that demand further attention from both analysts and policy makers.

- Market mechanisms covered by Article 6 of the Paris Agreement and the trading of international emission reduction units.
- Technology transfer through trade as a means of implementation under the Paris Agreement.
- Carbon pricing and emissions trading.
- Implementation of national climate policy in the energy sector.
- Removal of fossil fuel subsidies.

We identify steps into the direction of a trade regime supportive of climate change:

- First, we suggest an authoritative interpretation of Article XX of the General Agreement on Tariffs and Trade as a way forward to clarify the scope of exceptions to trade obligations. Such a step offers an important political signal that the WTO is being regarded and positioned as an institution that supports the climate policies of its members. At the very least, an authoritative interpretation could have members confirm what is already commonly accepted in case law, offering a pro-climate signal.
- Second, the dispute settlement mechanism under the WTO could be made more climate-friendly by including climate expertise in the bodies in a more balanced way.
- Third, the negotiations of regional trade agreements are a promising way forward for introducing and testing new rules on climate and trade. In particular, mega-regional trade deals (such as TTIP) have the potential to diffuse climate protection rules more widely as long as the negotiating parties have a common interest in avoiding a race to the bottom in setting climate protection standards.
- Fourth, plurilateral trade deals could support climate policy further by facilitating the trade in climate-friendly goods and services. This is a more WTO-specific option to bring forward common rules for trade and climate policy among WTO members who wish to do so. The United States, China, the EU, Japan and others are currently negotiating an Environmental Goods Agreement which aims to remove barriers to trade in goods that are needed for environmental and climate protection. Also, a broader trade and climate agreement, covering a set of key issues (e.g. services and non-tariff barriers), could further strengthen the promotion of climate objectives.
- Fifth, the bodies of the WTO and the UNFCCC could help strengthen transparency. To achieve this, an extended institutional setting at the WTO, e.g. through a Committee on Trade, Environment and Climate Change, would be one option. Another option would be to increase the coordination of existing bodies at the WTO e.g. the Committee on Trade and Environment and the Trade Policy Review Mechanism. And at the UNFCCC, e.g. the Subsidiary Body on Scientific and Technological Advice and the forum on the impact of the implementation of response measures, with the aim of regular and detailed exchange of information on NDC implementation.

Solutions - How the trade regime could support climate action



Abbreviations: EGA: Environmental Goods Agreement; GATT: General Agreement on Tariffs and Trade; RTAs: Regional Trade Agreements; UNFCCC: United Nations Framework Convention on Climate Change; WTO: World Trade Organization.

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