

How can the interplay between the trade and the climate regime be made more mutually supportive?

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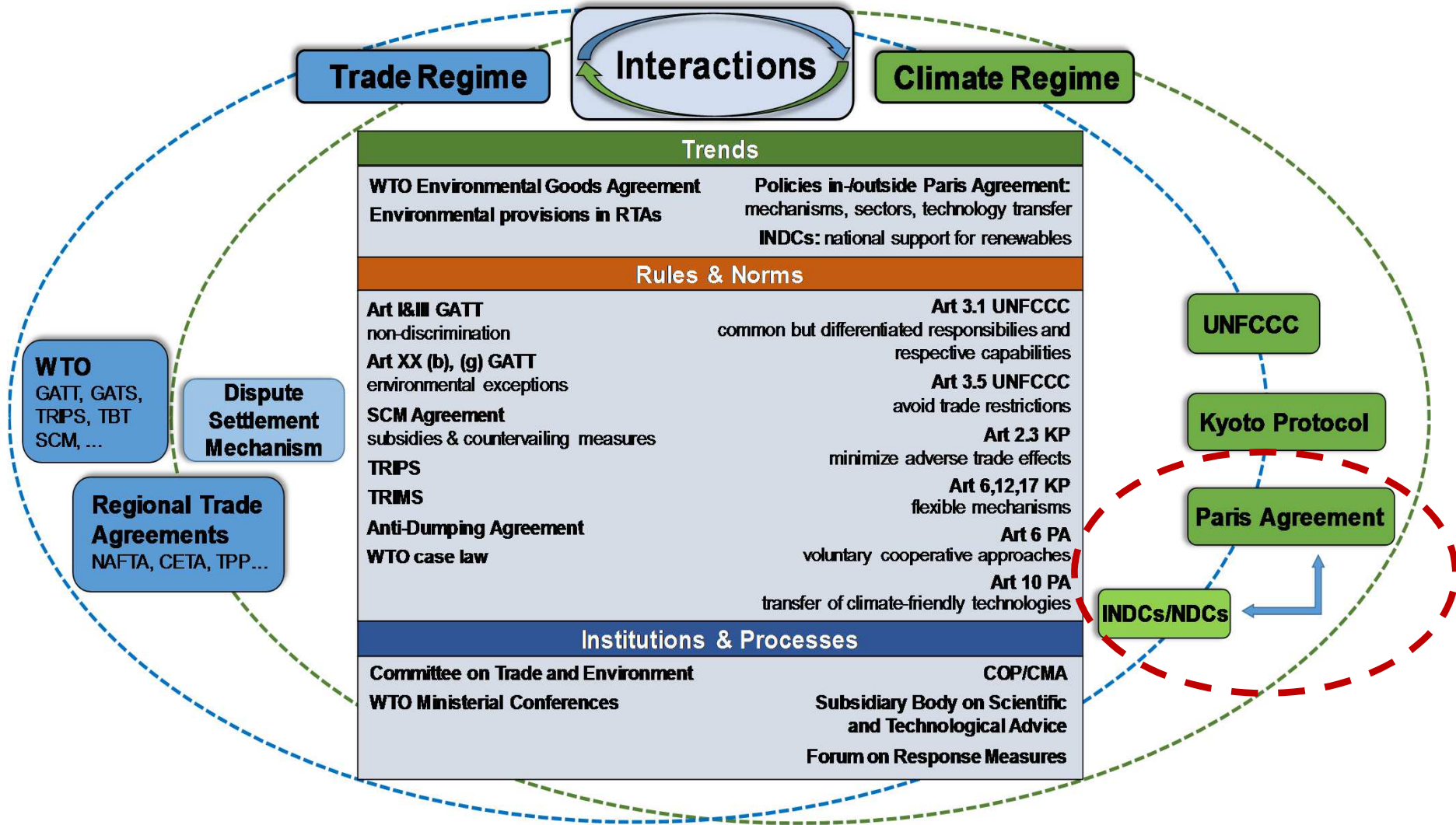
**COP23 Side Event at DIE-GDI Interconnections Zone; 8th November 2017:
The Role of Trade Policy in the Post-Paris Climate World**

Susanne Droege
8 November 2017

Outline

- 1. Point of Departure – A new Context**
- 2. The Paris Agreement and Trade**
- 3. National Climate Policy and Means to Deal with International Aspects**
- 4. Ways Forward**
- 5. Next Steps**

1 Overview of the Regimes



Source: Droege et al. 2016

2 The Paris Agreement and Trade (1)

The Paris Agreement **does not** refer to trade, but there are **elements** of the PA that touch upon, or increase the role of, trade rules.

- **Market mechanisms** covered by Article 6 of the Paris Agreement and the trading of international emission reduction units.
 - demand for a clearer definition of **related services** under the GATS. - potential for the **allocation** of mitigation efforts under domestic climate policies to interfere with trade regime rules on subsidies and countervailing measures.
- **Technology transfer** through trade as a means of implementation under the Paris Agreement. –
 - Technology transfer and **IPR**; TRIPS not reconciling interests of industrial countries and developing countries WTO members.
- **Carbon pricing** and emissions trading. INDCs show that many countries are interested in carbon pricing.
 - carbon leakage issues arise. - adjustment of carbon prices at the border?

2 The Paris Agreement and Trade (2)

- *Implementation of national climate policy in **the energy sector**.* INDCs include **support for renewable energy** in many countries. The number of specific regulations, such as local content clauses and subsidies that are in conflict with WTO rules, could rise.
- *Removal of **fossil fuel subsidies**.* High potential climate benefits, but still needs more support by international institutions, including the WTO and RTAs. This could bring about more transparency and coordination of national activities.
- **Further details and elements** can be found and will evolve further with the (I)NDCs.

3 Trade Elements in INDCs

- Data at WRI <http://cait.wri.org/indc/> (June 2017 164 parties = 191 countries) UNFCCC website:
<http://www4.unfccc.int/submissions/indc/Submission%20Pages/submissions.aspx>
- Kreibich (2016) with a first overview:
 - 92 INDCs indicate intention of using **international market mechanisms**;
 - 45 do not mention this tool at all.
 - Mostly low-income countries intend **to sell some type of mitigation unit** to source carbon finance flows (under Article 6 PA).
 - 29 countries express their interest in **using international market mechanisms** in the future, 18 explicitly reject them.
 - Many countries intend **investment in REN**, some very detailed. Most have announced relative or absolute targets

3 Trade Elements in INDCs

- Brandi 2017: **trade elements** in INDCs
 - 1. Reducing trade barriers (6%)
 - 2. Regulating trade on climate grounds (11%)
 - 3. Regulating timber trade (3%)
 - 4. Standards and labelling (9%)
 - 5. Border carbon adjustment (Mexico)
 - 6. Fossil fuel subsidies reform (6%)
 - 7. Renewable energy (priority in over 50%)
 - 8. Technology Transfer (63% of all conditional contributions mentioned)
 - 9. International Market Mechanisms (11% explicit, 56% interested, 50% conditional)
 - 10. Co-Benefits/trade-related trade-offs in EX and IM (6%)

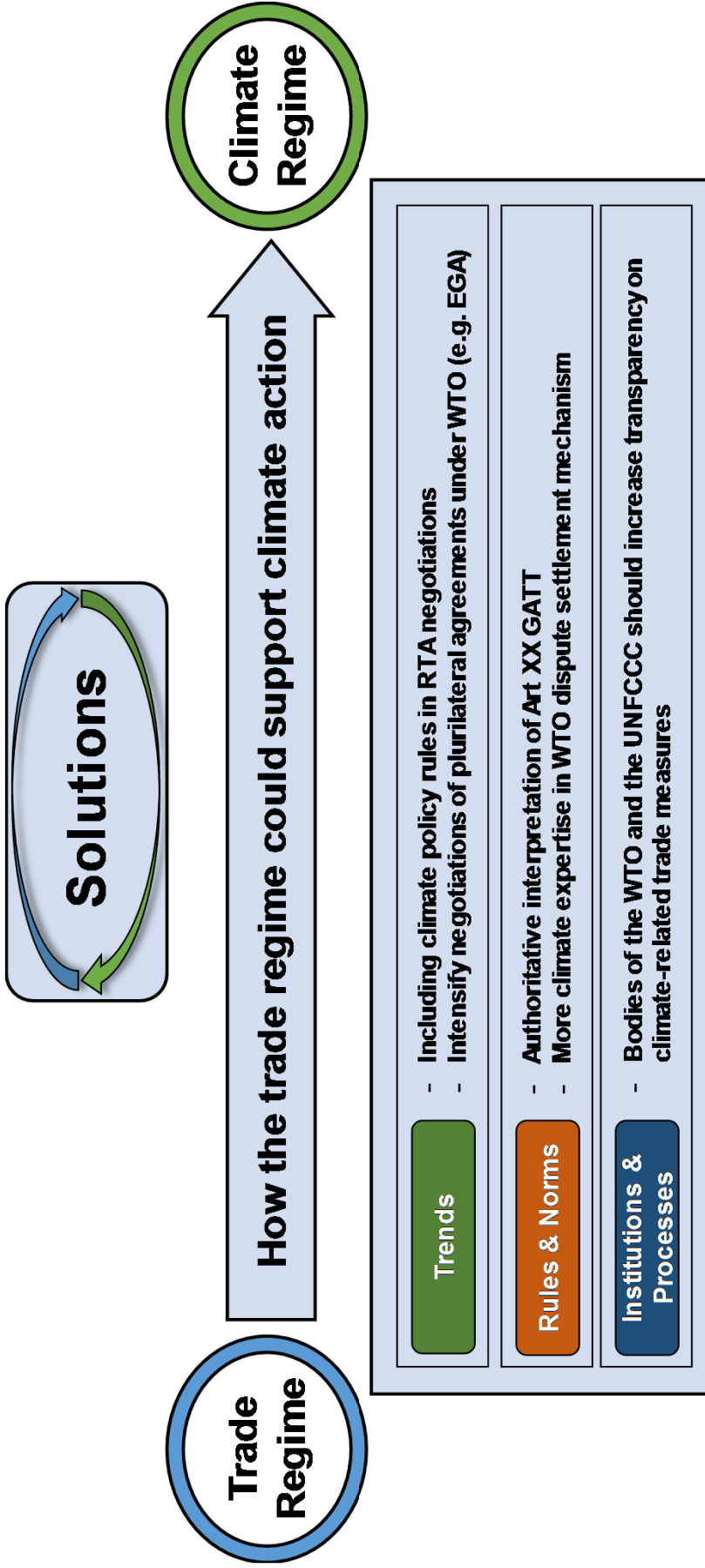
- **Overall picture**
 - Direct trade reference in 45% of INDCs
 - Specific trade elements rel. to mitigation in 22% of INDCs
 - (Largest emitters and exporters of carbon not among those)
 - References to indirect trade-related elements can be found in almost all INDCs

4 Clubs: Definitions and Concepts

- **Economic concept:** free riding and the economics of climate policy clubs
 - trade has a role to change the payoff function etc.
 - Nordhaus (2015): incentives and sanctions need to be included – e.g. technology transfer, trade measures
 - Under Paris Agreement (Art 6) context is set for market mechanisms coalitions (ETS, pricing etc).
 - Yet: these clubs take time to build
- **Political concept,** political *coalition* formation (a quick way forward): in support of the PA and the multilateral idea of tackling CC. – e.g. Carbon Pricing Leadership Coalitions (2014)
- **Reality:** Clubs with economic incentives occur implicitly and explicitly. Still to happen: PA Climate Clubs which incentivise mitigation

4 Clubs: the Role of Trade Measures

- **Disclaimer on BCAs:** understood as motivated by prevention of carbon leakage and referring to embedded carbon. Carbon leakage caused by environmentally ineffective policy. WTO rules support protection of a global resource.
- **Levelling** the playing field amongst competitors. – BCA as a unilateral approach, import and export adjustment = carbon pricing for domestic consumption.
- Several countries: - could coordinate BCAs. – could consider ETS linking where adjustment of carbon costs would occur via market system (no price adjustment behind the border or at the border needed).
- **Leverage (sticks and carrots):**
 - BCAs used to sanction the non-cooperating countries or encouraging the hesitant. – Mexico's reaction at Marrakesh COP to Trump election.
 - Bringing down trade barriers to speed up deployment along the national plans of action (see INDCs) is important.
 - **Sub-global approach:** preferential deals, e.g. developing countries NDC Partnerships;



6 Next Step: Looking into the Options for Making the Interplay more Supportive?

- Legal changes in the WTO regime
- Procedural changes in institutions and practices
- Actions under plurilateral / regional trade agreements

6 Looking into the Options

1. Legal changes: WTO

LT

1(A). Amending the text of the WTO agreements

MT

1(B). Adopting 'Waivers' releasing Members from legal obligation under the WTO agreements

MT

1(C). Adopting 'Authoritative Interpretation' of WTO agreements/provisions

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2. Procedural changes in institutions and practices

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2(A). Ensuring technical expertise on climate change in relevant WTO dispute panels and the Appellate Body

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2(B). Enhancing coordinated efforts between the WTO and UNFCCC through more intensive use of existing forums (e.g. CTE, SBSTA)

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2(C). Creating new institutional setup under the WTO [e.g. a WTO 'Committee on Trade, Environment and Climate Change']

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3. Actions under Plurilateral/Regional Trade Agreements

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3(A). Intensifying efforts under plurilateral approaches [e.g. Environmental Goods Agreement (EGA)]

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3(B). Including climate-friendly provisions in RTAs that are undergoing negotiation as well as in future RTAs

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3(C). Reviewing existing RTAs with the aim of making them more climate-friendly

5 Options... and their Political Feasibility

	High Potential
	Medium Potential
	Low Potential

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ST/MT

Fossil fuels subsidies

WTO has a role to play for fossil fuels subsidies phase-out:

1. Beyond litigation, WTO can act as a forum for negotiation but also policy/technical dialogue
2. Options could be pioneered by one or several WTO Members, or through regional, mega-regional and plurilateral trade agreements
3. Solutions need to avoid duplication of effort.
4. Any approach must take into account special circumstances of developing countries
5. MC 11 offers an important opportunity to move this agenda forward

Thank you for your attention

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Droege, S.; van Asselt, H.; Das, K.; Mehling, M. (2016): The trade system and climate action: Ways forward under the Paris Agreement, Climate Strategies Working Paper; <http://climatestrategies.org/publication/the-trade-system-and-climate-action-ways-forward-under-the-paris-agreement/>



Thank you for your attention!

The Traffic Light Methodology

	High Potential
	Medium Potential
	Low Potential

In arriving at an 'Overall Verdict' in the Traffic Light Approach, much weight is attached to the 'political feasibility' of a proposed policy option, while also keeping in mind its expected implications in terms of the other two criteria.

'Green' is assigned to an option if its 'political feasibility' is at least 'medium', and the potential to deliver on the other two criteria is also at least 'medium' (even if some of the implications are 'inconclusive' as of now).

'Amber' is assigned to a policy option if its 'political feasibility' is at least 'medium', but it scores 'low' in terms of at least one of the other two criteria.

'Red' is assigned to a policy option if its 'political feasibility' is 'low', even if it has the potential to score well in terms one or both of the other two criteria.