



Trade and Climate Change

Climate THAILAND 2010
August 19-20, 2010

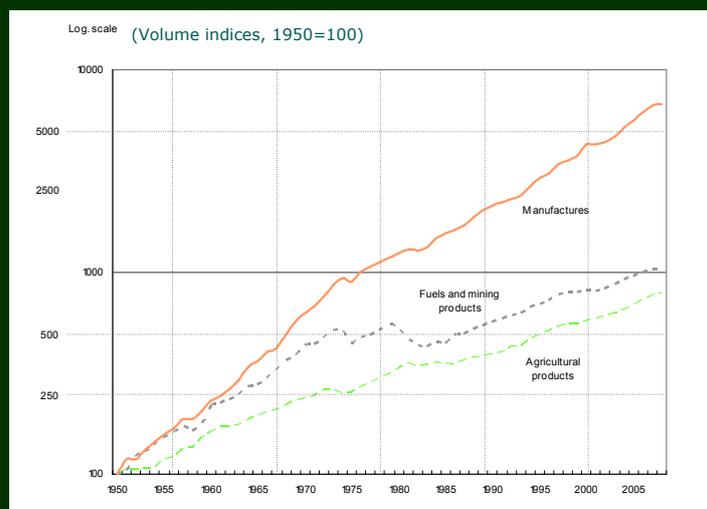
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Outline

- Trend in global trade
- Interlinkages between trade and climate change
- Trade negotiations

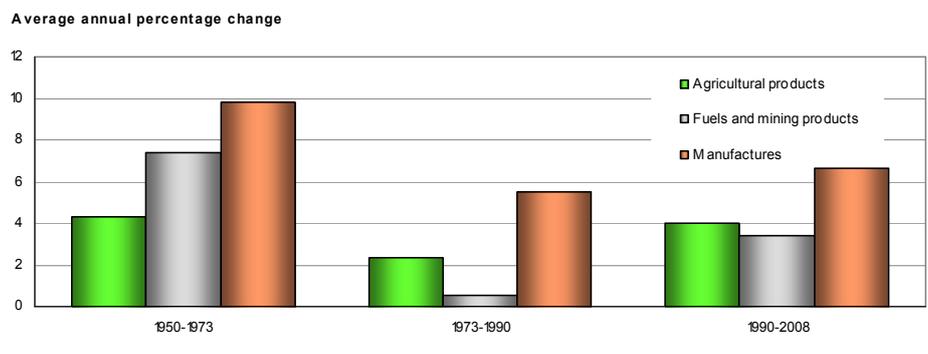
Trend in global trade

World merchandise trade volume by major product group, 1950-2008



Source: www.wto.org

Average annual percentage change of World merchandise trade volume



Source: www.wto.org

- International trade as a share of world GDP rose from 5.5% in 1950s to 21% in 2007, growing more than 32 times in volume.
- The expansion of world trade has led to an increase in GHG emissions through production and transportation.

Study by Carnegie Institution—compute
'consumption based accounting' of CO₂
emissions

- Over one-third of CO₂ emissions associated with the consumption of goods and services in many European countries are produced offshore.
- **23% of all CO₂ emissions are produced in one country and consumed in another country.**
- **Nearly a quarter of the emissions produced in China are ultimately exported.**

- China
- Russia
- Middle East
- South Africa
- Ukraine
- India

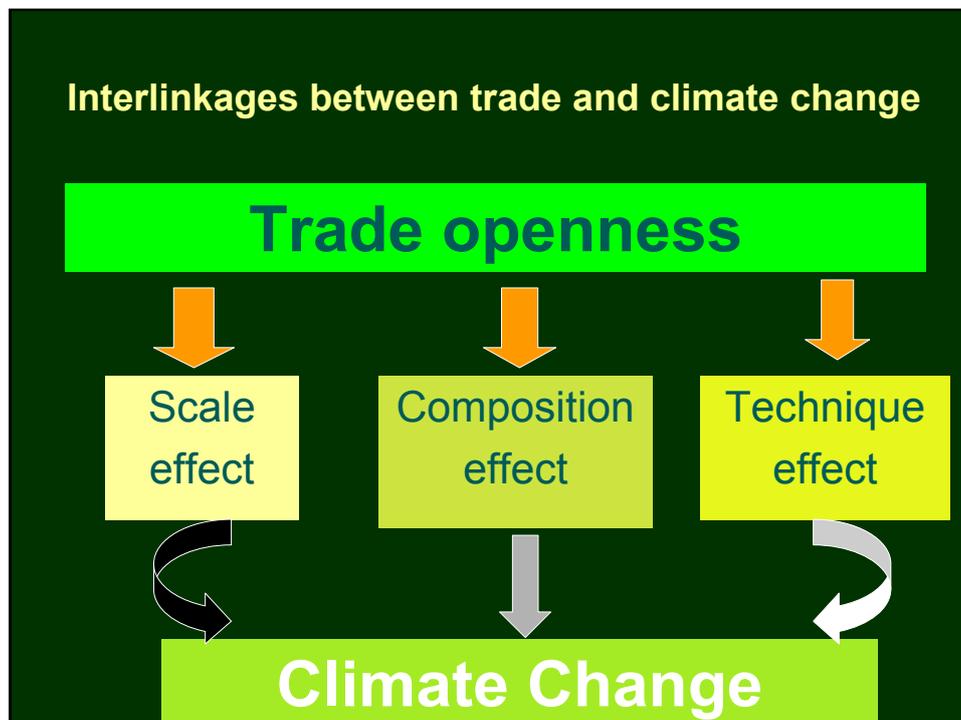
Net exporters of CO₂ emissions



- United States
- Japan
- United Kingdom
- Germany
- France
- Italy

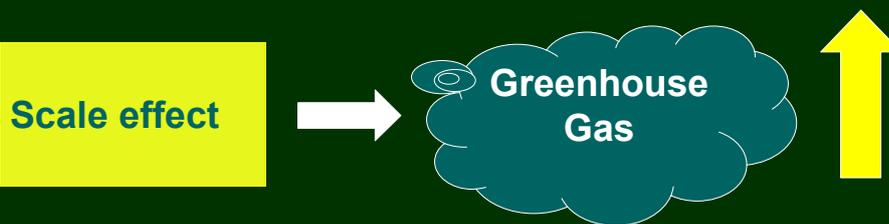
Net importers of CO₂ emissions

- On per-capita basis, Luxemburg, Hong Kong, Singapore, Iceland, and Liechtenstein top the list of consumers.
- Consumption-based accounting of emissions provides grounding for ethical arguments that developed countries are the primary beneficiaries of emissions and they should lead the global mitigation effort.



Scale Effect

Scale effect refers to the increase in greenhouse gas emissions due to an expanded level of economic activity.



Composition Effect

Composition effect refers to the way that trade opening changes the structure of production. There are the expansion of some sectors and contraction of some other sectors. The structural change depends on the country's comparative advantage.

Composition Effect

- If emission-intensive sector (comparative advantage sector) expands, then GHG emission will increase.
- If it contracts, then GHG emission will be lower.



Carbon Leakage

- This refers to the relocation of industries emitting high levels of GHG from a country with strong penalties on emissions to a country with weak penalties.
- Trade opening can cause some countries specialize in more emission-intensive industries, while others concentrate on cleaner industries.

Technique Effect

Technique effect refers to improvements in the methods by which goods and services are produced, so that the GHG emission declines.

Two ways: lower price and higher income

Technique Effect

- More open trade will increase the availability and lower the price of climate-friendly goods and services.
- More open trade leads to higher income so the general public demand more of low GHG emissions.

Technique effect



Scale
effect

Composition
effect

Technique
effect

+

+/-

-

So.....net effect....??

depends on **magnitude**.

Trade Negotiations

- WTO members established a clear link between sustainable development and trade opening in order to ensure that market opening goes hand in hand with environmental and social objectives.
- CTE---Committee on Trade and Environment oversees discussions relating to trade and environment mandate.

Under multilateral trading system, there is a call for liberalization of environmental goods and services via tariff reduction and elimination of non-tariff barriers.



More global access to more efficient, diverse, and less expensive goods and services that can contribute to climate change mitigation and adaptation.

Key areas identified in the negotiations in Doha Ministerial Declaration

- Improving access to climate-friendly goods and services
- Mutual supportiveness between trade and environment

Improving access to climate-friendly goods and services

- Hydropower turbines
- Solar water heaters
- Tanks for the production of biogas
- Equipments necessary for the operation of renewable energy plants and technologies

- Developing countries get better access to lower price climate-friendly goods and services.

- Incentives for domestic producers to expand the production and export of these goods. For example, PRC, Indonesia, Korea, India and Malaysia now become producers of clean energy sectors such as wind and solar energy or efficient lighting.

Mutual supportiveness between trade and environment

WTO ensures coherence by fostering a positive synergy between trade and environment regimes.

The negotiators are seeking ways to improve national coordination and cooperation between trade and environment policies.

Doha Round is the first-ever multilateral and environmental negotiation.

Cooperation already exists between WTO and climate change bodies.

UNFCCC regularly joins the meetings of CTE. And WTO secretariat also attends UNFCCC Conference of Parties meetings.

Progress of the talks on trade and climate change issues

- Proposal to identify specific tariff lines for environmental goods.
- This proposal was submitted by Singapore. It could be useful in determining the impacts of EGS liberalization and that could help ease market-access concerns.

- US continues push to open trade in environmental goods.
- Democrat introduced a bill that aims to boost competitiveness of US clean technology. Export assistance for US clean technology firms would be established.
- 30 firms in the world---6 are in the US

- Germany and China are building their comparative advantages in environmental-friendly goods.
- China is a major exporter in almost all forms of renewable energy sources, especially solar energy.

Progress of the talks on trade and climate change issues

- Brazil and Qatar made submissions on fuels (natural gas and biofuels) that are supposed to be cleaner than crude oil and coal.

“Relatively cleaner source of energy”

- Brazil called for biofuels to be recognized as relevant goods for liberalization under the EGS negotiations.

Progress of the talks on trade and climate change issues

- Joint proposal from Brazil and Argentina on Special and Differential Treatments (SD&T), which allow developing countries greater flexibility in cutting their tariffs and subsidies. Also, it allows developing countries to longer transition period.
- Technical assistance and capacity building are needed.

Looking ahead

- Members are expected to continue to revise different lists of environmental goods for liberalization.
- It would be better to start identifying a single list of specific goods that all members can agree.



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Border tax adjustments

Detailed rules on border tax adjustments (BTAs) exist in the GATT and the WTO SCM Agreement. (Subsidies and countervailing measures) And these rules permit, under certain conditions, the use of BTAs on imported and exported products.

- Consistency with country's environmental objectives
- Must not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade

Free trade agreements and climate change

- So far, there are 243 regional trade arrangements notified to the WTO.
- Among WTO members, Canada, EU, US have required environmental assessments of trade agreements that they have entered into.

- NAFTA
- EU-Mercosur
- US-Australia
- EU-Chile
- Overall, the impact assessment of trade agreements on climate change are mixed.

- Transportation through economic corridors would cause trade-related GHG emissions to increase.
- Therefore, it is a must to ensure that vehicles carrying goods from one point to another would not return home empty.