International Workshop on Post-2012 Climate and Trade Policies

Geneva, 8-9 September 2008

General background note

The next 15 months will be of crucial importance for moving international efforts to address climate change forward. In December 2007 at Bali, Parties to the UN climate regime launched a two-year negotiation process aimed at forging a post-2012 agreement. Effectively addressing climate change in this agreement will require solutions likely to have an impact on international trade. Overlaps between climate change policies and the multilateral trading system administered by the World Trade Organization (WTO) therefore seem inevitable. International trade can affect climate change in both synergistic and detrimental ways: for instance, it can spur the proliferation of climate-friendly technologies, yet it might also stimulate economic activities that induce increased greenhouse gas emissions. Conversely, approaches to reduce greenhouse gas emissions might affect competitiveness and hence reduce countries' willingness to endorse or implement such measures.

While the climate-trade nexus has become the focus of an extensive academic debate, policy communities have tended to approach the institutional and policy overlap with caution. Recently, however, policy-makers have increasingly concentrated their attention on the thematic inter-linkages among the climate and trade regimes. Just prior to the Bali conference, WTO Members started to discuss trade liberalisation for a number of climate-friendly goods and services. Moreover, during the conference in Bali, an Informal Trade Ministers' Dialogue on Climate Change was held, where 32 trade ministers emphasised the need for increased high-level engagement for improving the mutual supportiveness of the climate and trade regimes. This meeting was followed by two major international workshops on climate change and trade – one organized by UNEP in February 2008 in Geneva, and one organized by the Danish Government in June 2008 in Copenhagen – where participants focused on a number of key issues in the climate-trade interplay.

Against this background, the purpose of this workshop is threefold:

- to examine potential key elements of a future climate regime that may have implications for the international trading system;
- to discuss various approaches through which the world trade regime can address or otherwise affect climate change in a post-2012 world; and
- to explore chances for synergistic interplay between the negotiation agendas for both regimes, i.e. the Doha Agenda and the Bali Road Map, taking into account concerns of equity and sustainability.

The workshop is aimed at stakeholders from both the trade and climate communities, including policy-makers, negotiators and academics.

Session One THE CLIMATE REGIME: REFLECTING TRADE-RELATED MEASURES IN A POST- 2012 AGREEMENT

OPTIMISING THE ROLE OF THE POST-2012 FLEXIBILITY MECHANISMS

Climate policy and trade are interlinked in various fashions. One of the most important linkages concerns the trade-related implications of the three flexibility mechanisms in the Kyoto Protocol and possible reforms of these mechanisms in post-2012 scenarios. Potential questions to address include:

- Will the expansion of international emissions trading to include all major emitters reduce trade-related impacts of climate policy and provide incentives for greater participation in climate change mitigation?
  - What are the options and barriers for expanding international emissions trading, or for linking post-2012 party and non-party domestic emission trading schemes?
  - To what extent can cap-and-trade trading schemes be combined with sectoral agreements and project-based emissions trading?
  - Which allocation methods are most sensible at the international level?
  - How can competitiveness and leakage concerns be addressed in future international trading schemes?
- How can Clean Development Mechanism (CDM) and Joint Implementation (JI) projects be strengthened to reflect the strong interdependencies among international trade, direct investment and technology?
  - What are the advantages and drawbacks of major CDM reform proposals from a trade perspective (bundling, policy-based sectoral CDM, differentiation between project types and countries, etc.)? To what extent can such reforms enhance investment flows to developing countries?
  - How can the CDM be dovetailed with other institutions and provisions for technology transfer in a post-2012 regime?

INCENTIVE MECHANISMS AND CLIMATE FRIENDLY TECHNOLOGIES

Climate change technology cooperation agreements are largely bilateral or regional in coverage. These arrangements could result in significant international trade in key technologies, related to, for example, energy efficiency and renewable energies. The challenge will be to find effective mechanisms to manage these various agreements, and to reflect such coordination and harmonization in the post-2012 multilateral climate regime. Potential questions to address include:

- Which institutional solutions are feasible and desirable under the climate regime (e.g. a technology protocol, a technology transfer board, or separate funding mechanisms)?
- Which approaches can be taken in the context of the WTO, e.g. regarding negotiations on liberalizing trade in climate-friendly goods and services?
- To what extent can these approaches facilitate soft and hard North-South technology transfer?
- What is the potential for synergy among both regimes' approaches, e.g. regarding reductions of fossil fuel subsidies, creating incentives for technology transfer, or the regulation of intellectual property rights and compulsory licensing?

- How can potential tensions be addressed or avoided, e.g. regarding the transfer of high-emissions technologies, or the restricted influence of governments (legitimacy of performance requirements, etc.)?

Session Two THE TRADE REGIME: ADDRESSING CLIMATE CHANGE IN A POST-2012 WORLD

CARROTS AND STICKS: UNILATERAL TRADE MEASURES IN POST-2012 SCENARIOS?

Unilateral measures include, among others, product standards and labelling, subsidies for the production of climate friendly goods and services, government procurement programmes, and trade-related border measures. These measures can have both positive and adverse impacts on trade; the following questions are hence vital for the design of a post-2012 climate agreement. Potential questions to address include:

- What are potential ways to create a coherent, fair and clear-cut legal environment – in the WTO, a future climate regime, or outside of these agreements – for border tax adjustments and other carbon equalisation systems, taking into account the non-Party problem, the design (e.g. the calculation of adjustment levels), and the differences between border tax adjustments and obligations to purchase emission allowances?
- How can adverse impacts on developing country economies by such approaches be avoided?
- To what extent could other unilateral climate-related trade measures, such as state aid, technical standards and labels, and government procurement, be made compatible with the various disciplines of the WTO agreements under different post-2012 scenarios?
- How might the WTO framework support the predictability, transparency and fair implementation of domestic post-2012 policies and measures?

ACHIEVING CONSENSUS: MULTILATERAL TRADE MEASURES IN POST-2012 SCENARIOS

The multilateral trade regime potentially has the capacity to create the necessary incentives and an enabling environment to address climate change challenges. Potential questions to address include:

- To what extent can the trade regime facilitate market access for climate friendly goods that are compatible with climate policy objectives?
- What are the chances to establish a coherent conditionality for market access for goods and services upon exporters? To what extent can these conditions reflect relevant international climate change-related standards? To what extent can they elicit greater synergies between post-2012 climate and trade regimes?
- To what extent can such multilateral measures meet developing country concerns about market access and dual-use technologies?

On the other hand, some have argued that a post-2012 climate agreement could address trade-related measures more directly, possibly in a similar way as trade measures have been included in other multilateral environmental agreements, such as the Montreal Protocol. Potential questions to address include:

- In general, what are the possibilities and limitations for multilateral climate-related trade measures in a post-2012 climate regime, with a view to their compatibility with the WTO agreements and political acceptability?

- What are potential novel enforcement mechanisms in a post-2012 climate agreement, and prospects for their WTO compatibility?
- Which lessons can be learnt from the Montreal Protocol regarding multilateral trade measures in an environmental agreement?

LESS IS MORE? BILATERAL AND REGIONAL TRADE AGREEMENTS IN POST-2012 SCENARIOS

The hundreds of existing bilateral and regional trade and investment agreements are likely to come under greater scrutiny with respect to climate change issues. Likewise, it has been argued that the possibility of further proliferation of these agreements at all levels and sectors suggests the prospect of ever more complex multi-level arrangements that could be utilized to tackle climate change challenges. The diversity of bilateral and regional agreements will create both challenges and opportunities for governments and policymakers that implement international agreements. Potential questions to address include:

- What are current and possible future climate-related measures in bilateral, regional trade agreements?
- What are the implications of these measures for a post-2012 climate regime?
- What are implications of these measures for developing country economies?
- What is the relation between sectoral and/or regional technology agreements, a post-2012 climate change agreement, and the WTO agreements? To what extent could sectoral or plurilateral approaches and/or agreements offer opportunities to coordinate climate and trade policies more closely in the future?
- What is the relation among regional trade and regional climate arrangements in a post-2012 world?

Session Three OVERLAPS BETWEEN THE DOHA ROUND AND POST-2012 NEGOTIATIONS

UNDERSTANDING THE INTERPLAY BETWEEN THE CLIMATE AND TRADE REGIMES

The development of a coherent system of post-2012 climate and trade policies depends on a thorough understanding of the opportunities and limits of interplay among both regimes. Potential questions to address include:

- How do both regimes buttress or undermine each other in the post-2012 negotiation process, not only in terms of rules and norms, but also regarding the discourses which shape the framing and management of interplay between them, e.g. discourses on equity, sustainability and the removal of trade barriers?
- What are the implications of current and future interactions with regard to both tensions (e.g. chill effects on the road to Copenhagen) and synergies (e.g. cross-institutional learning)?
- What are the advantages and drawbacks of various negotiating tracks on post-2012 climate and trade policies under both regimes, for example regarding providing incentives for participation, bypassing stalemates, deepening emission reduction commitments, or forum shopping?
- What are the prospects for formal or informal cooperation and coordination between the UN climate regime and the WTO, such as in the WTO Committee on Trade and Environment?

- What lessons can negotiations for a post-2012 climate agreement draw from the WTO process, e.g. a 'request-and-offer' system and sectoral agreements and negotiations?

EXPLOITING SYNERGIES BETWEEN THE CLIMATE AND TRADE NEGOTIATIONS

Given the various overlapping topics among both regimes, there might be several areas of convergence across institutions that have not been explored entirely. Scoping out the potential for such linkages might be a crucial first step to avoid or break negotiation deadlocks. Potential questions to address include:

- To what extent can similar debates in both regimes be linked in a meaningful way, thereby creating additional tradeoffs?
- What are the chances for such cross-institutional approaches for the post-2012 process, for example, regarding related discussions on technology transfer and intellectual property rights, or on biofuels, deforestation and agricultural subsidies?
- What are the caveats and barriers for such approaches, e.g. regarding country positions and institutional mandates?
- What are the North-South implications of such cross-cutting approaches: additional tradeoffs or further deadlocks?