

## Summary

### *Dialogue on International Trade, Climate Change and Global Competitiveness*

Jointly organized by ICTSD, UNEP and The World Bank

4 October 2007, Geneva, Switzerland

12:30 – 14:30

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#### **Introduction**

Many developed and developing countries have been reluctant to adopt aggressive policies or strict targets for reducing greenhouse gas emissions because of concerns about how this will impact their global competitiveness. These concerns have prompted calls from within industry and by governments for the introduction of measures, including trade measures, to level the playing field.

This dialogue, which was convened jointly by ICTSD, UNEP, and the World Bank, was aimed at exploring the complex relationship between climate change mitigation, competitiveness and trade policies. Participants in the dialogue reviewed initial empirical insights on the impact of climate measures, such as carbon taxes and energy efficiency measures, on international trade flows and global competitiveness. In addition, participants discussed initiatives being considered in major economies to address competitiveness concerns, and considered the implications of these measures for trade policy and sustainable development.

#### **Opening Session: Summary of the Opening Remarks**

Mr. Ricardo Meléndez-Ortiz, Chief Executive, ICTSD, introduced the context within which this dialogue was taking place, as the international community is engaged in a process of defining a global regulatory framework for addressing climate change after the 2012 expiry of the Kyoto Protocol to the United Nations Framework Convention on Climate Change. He stressed that the emerging concerns about competitiveness highlighted potential tensions between policies designed to address climate change and international trade rules, which called for a need to reexamine policies on both fronts, with a view to enhance mutual supportiveness. On a number of issues, such as border measures, taxation, and requirements of energy efficiency, clarification would be needed as to what are measures that countries may take at the national level while abiding by their WTO and other international commitments.

Mr. Meléndez-Ortiz noted that while competitiveness concerns have mostly emerged in relation to measures taken by developed countries in implementing their climate change obligations, the effects of some of the climate policies such as measures addressing energy efficiency have resulted in several challenges for developing country exporters in terms of being able to comply swiftly with changing and increasingly stringent market access requirements. In the absence of a clear regulatory forum for addressing these emerging tensions – as they relate both to the trade and climate policy arenas – there is a fear that countries may increasingly recourse to unilateral approaches through measures such as antidumping and border measures in order to solve perceived competitiveness concerns.

Mr. Meléndez-Ortiz concluded that by reviewing the initial empirical learning on the potential impact of climate measures on international trade, this dialogue will hopefully contribute to easing some of the tensions, and also assessing emerging opportunities, by providing a better understanding of what actual implications of climate policies are for international trade, growth and competitiveness.

Mr. Shafqat Kakakhel, Deputy Executive Director, UNEP, stressed that climate change is one of the most critical global environmental challenges facing humanity. He also stressed the importance of taking immediate action to combat climate change. In so doing, he cited Sir Nicholas Stern's recent review, which estimates that failing to take action on climate change will result in costs and

risks equivalent to losing at least 5% of global GDP per annum, while the estimated costs of reducing greenhouse gas (GHG) emissions would be limited to approximately 1% of global GDP each year.

He went on to suggest that many developed and developing countries have been reluctant to adopt aggressive climate related policies because of concerns regarding global competitiveness. However, Mr. Kakakhel highlighted that in addition to the economic challenges presented by climate change there are also profound economic opportunities. He concluded by suggesting a few critical questions that must be resolved in order for us to move discussions on climate change, competitiveness and trade forward, including:

- What opportunities for growth does climate change mitigation present and what political and economic conditions are prerequisites for driving innovation and ultimately foster competitiveness?
- Are the national measures being discussed by countries to respond to competitiveness concerns likely to be successful in levelling the playing field, and what can be done to ensure these measures are compatible with WTO rules?
- What opportunities does the WTO and international trade provide for addressing climate change challenges, and most importantly, what needs to be done to capitalize on these opportunities?

#### **Summary of Muthukumara Mani (Senior Environmental Economist, The World Bank), *The Effect of Climate Change Policies on International Trade and Competitiveness***

Mr. Mani focused his presentation on two underlying climate change policies, namely fiscal (carbon taxes) and regulatory (energy efficiency standards) measures and how they impact global competitiveness. It is often assumed that a carbon tax can adversely affect competitiveness by increasing the costs of production and reducing profits. Similarly, for regulatory measures (e.g. standards and labelling schemes) the additional costs and time involved for complying with energy efficiency standards could add to the cost of internationally traded products.

Mr. Mani highlighted a recent World Bank study, in which he served as lead author, which found that carbon taxes do not adversely impact international competitiveness as compared to efficiency standards. He explained that subsidies and other exemptions on energy intensive industries may be “overcompensating” for any adverse effects from the imposition of carbon taxes. Nonetheless, the study found some modest evidence of leakage of carbon/energy intensive industries, which may be the result of climate policies.

Mr. Mani concluded his presentation by stressing the need for including major developing countries in post-Kyoto climate negotiations given that the largest increase in carbon emissions in the coming decades will be mainly from these countries. He also advocated the need for innovation and technology transfer for tackling climate change.

#### **Summary of Aaron Cosbey (Senior Project Advisor, International Institute for Sustainable Development), *Competitiveness and Climate change***

Mr. Cosbey began his presentation by noting that competitiveness is a term that is often inappropriately applied to the relationship between countries. Rather, he argued that competitiveness is really a question at the level of individual firms and sectors.

In terms of climate change, Mr. Cosbey noted that there are two basic competitiveness concerns for firms: (1) when firms and sectors from “non-Party” countries enjoy an unfair advantage because they are not subject to carbon constraints; and (2) when countries create unfair competitive advantages for domestic industry by the manner in which they implement their climate change commitments.

He noted that early empirical studies focused primarily on questions of whether stringent environmental regulations reduce market share and/or impact investment decisions. These early studies found little impact because the cost of environmental compliance is relatively low (2-3 %) and other factors (e.g. location and political instability) may be more significant. However, Mr. Cosbey suggested that many of these early studies used a flawed methodology that was characterized by the use of cross-sectional data rather than panel data, and the fact that many of the studies aggregated industry figures to calculate overall responsiveness to environmental policies.

According to Mr. Cosbey's analysis, he has found that there are competitiveness impacts on market share and on investment decisions. In most scenarios, these are quite moderate but in specific sectors, particularly those that are energy intensive or where firms have difficulty passing the costs on to consumers, these can be considerable. Given this, he highlighted the importance of conducting detailed sectoral analyses.

**Summary of Thomas L. Brewer (Georgetown University and Centre of European Policy Studies), *Border Measures to Address Climate Change related Competitiveness Concerns: Approaches in the EU and US.***

Dr. Brewer presented a political and institutional perspective on climate change and competitiveness in the EU and US. Dr. Brewer began his presentation with a concise summary of recent political and legal developments related to EU climate change measures. For example, the European Parliament recently passed a resolution calling upon the Commission to consider tariffs on import products from countries that did not participate in the Kyoto Protocol. For the time being, the European Commission has decided not to pursue such action but many EU member states still remain interested in exploring such an option.

Dr. Brewer also briefly discussed two pending bills in US Congress (the Bingaman-Specter and Lieberman-Warner Bills) that contain offsetting border measures. In particular, he noted that the Bingaman-Specter bill requires US importers to purchase emission credits in order to offset the lower energy costs of "covered" imported goods; goods from countries that have not undertaken "comparable" GHG mitigation measures. Dr. Brewer believes some of these proposed border measures will become law in the near future but the specific timing remains uncertain.

Dr. Brewer concluded his presentation by pointing out policy measures in the US and EU that seem counterproductive to the interests of developing countries and the environment. For instance, the EU has imposed between 59%- 67% anti-dumping duties on compact fluorescent light bulbs from China. Similarly, the US has placed heavy duties on sugar cane-based ethanol imports from Brazil (which are estimated to be four times as cost effective in reducing GHG emissions as US corn-based ethanol).

**Summary of Shuaihua Cheng (Programme Officer, ICTSD), *Competitiveness and Climate Change: Perspectives from China***

Mr. Cheng focused on three major issues in his presentation on China's perspective in this debate, including: (1) carbon leakage and competitiveness; (2) climate related border trade measures, and (3) technology transfer.

Mr. Cheng noted that a large number of industries have relocated to China from developed countries, particularly high energy and resource intensive industries. He also noted that China has become more proactive in responding to climate change challenges. For instance, they recently began imposing export tariffs (5-10%) on energy-intensive products, mainly steel products. China has also lifted or reduced export tariff rebates for about 800 products, such as steel, textiles and furniture.

Mr. Cheng noted that climate-related border measures are often justified as a means of levelling the playing field, but he noted that many in China believe the principle of common but differentiated responsibilities is critical in the climate change context given the historical responsibility of

developed countries GHG emissions. Finally, he noted that China views technology as an integral part of any global climate change strategy, but believes that the current level of technology transfer to China is not enough.

### **Closing Discussion**

The event concluded with an interactive discussion among participants. Among other things, several participants expressed their interest in the World Bank report and whether it was appropriate to conclude that the impact of carbon taxes on competitiveness was minimal given that subsidies and other exemptions on energy intensive industries impacted the results. It was suggested that separating the taxes from subsidies to identify actual impacts may be more appropriate.

Participants also shared views on the need to deepen our understanding of the nature and mutual implications between the evolving trade and climate change regimes, in ways that would ease potential conflicts and strengthen mutual supportiveness. As countries are currently engaged in processes of negotiations for defining new regulatory and market frameworks in the trade and climate change policy areas, further policy-oriented and solutions-focused insights would benefit these policy processes.