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Why Developing Countries' Positions in Climate Talks Should be Aware of Trade Policy

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Summary

In their efforts to deal with climate change, governments often adopt trade-related regulatory measures such as taxes, tariffs and subsidies that may be subjected to WTO rules and procedures. This is but one of many illustrations of why climate and trade negotiations need to be envisaged in synergy by governments. Through the example of Uganda, this briefing paper highlights the need for developing countries to link multilateral climate and trade talks, especially as UNFCCC members are expected to make or enhance their emission reduction targets.

Introduction

Climate change affects trade in terms of patterns and volumes of trade of any country. An adverse effect on natural resources and the environment due to climate change can modify countries' productive capacities altering their trade patterns and export specialisation. In addition, trade activities can either negatively or positively contribute towards climate change. For example, increased levels of economic activities may lead to increase in greenhouse gas emission, while other economic activities like forestation or reforestation can lead to climate change mitigation.

Countries pursue trade mainly for economic growth and development and very often, economic growth may lead to environmental degradation which results into climatic change. In the process, climate change will lead to a slow-down in economic growth. Therefore, while countries pursue economic growth and development, they need to ensure that they minimise the conflict that may arise between their pursuit of economic growth and environmental protection.

Climate and trade: Linkages in Multilateral Negotiations

The rules that guide trade and environment at the multilateral level are embedded into various WTO Agreements and UNFCCC texts. There are also regional initiatives that try addressing climate change. At the national level various regulations and standards are maintained by national governments in order to address the negative effects of climate change.

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Climate Change at the WTO

The preamble of the agreement establishing the WTO Agreement provides that relations among WTO members should be conducted with a view to achieving their development objectives "while allowing for the optimal use of the world resources in accordance with the objective of sustainable development seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development[1]". In addition, GATT Article XX, the Processes and Production Methods (PPMs) issue, and the definition of a like-product are relevant to the examination of climate change measures. A Committee on Trade and Environment (CTE) was established thereafter to act as a forum for informed debate on how trade and environment measures are connected and to avoid or minimise regulatory conflicts. The CTE provides opportunities for developing countries to achieve a more coordinated approach on the issue of trade and climate change.

The Doha Development Agenda, developed by the WTO Trade ministers in 2001, further realises the important issue of trade and environment and to this effect strongly reaffirms members' commitments to the objectives of sustainable development. In fact, it argues that the goals of the multilateral trading system and the protection of environment and promotion of sustainable development can be mutually supportive.[2]

Several issues have been under discussion in the CTE. While developing countries have been pushing for technology sharing and transfer, developed countries are more interested in the removal (or reduction) of tariffs and non-tariff barriers. In essence, they are more interested in market access of their products into developing country markets. The issue of carbon adjustment has also been sensitive and developing countries have raised concerns over the product requirements relating to carbon footprint, standards setting, and technical assistance.

Trade in Multilateral Climate Talks

The rules that guide climate change are embedded into the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol, besides other policies and measures at the regional and national levels. Article 3.5 of the framework convention states that "measures taken to combat climate change, including unilateral measures, should not constitute a means of arbitrary or unjustifiable discrimination or disguised restriction on international trade". It would therefore seem that WTO Agreements and UNFCC Protocol are both mutually supportive.

The ability of the trade sector to foster growth and increased incomes will depend to a large extent on a healthy environment. Stern Review[3] argues that the cost of taking timely action on climate change is far less than the cost of inaction and therefore failing to address the problem will lead to equivalent loss of 20% of GDP globally with more losses to least developed countries (LDCs) and developing countries. In such a case, delivering on the commitments of the multilateral trading system becomes impossible.

Researchers have also argued that there are more economic benefits of addressing climate change beyond costs. Mitigation measures that are related to trade range from increase in efficiency in production (such as the adoption of cleaner technologies in production); consumption; and reducing the amount of energy needed for global economic production.

Trade Policies and Climate Change

While it cannot be easily quantified, trade policies like trade liberalisation including the pursuit of investment treaties may have an impact on climate change. This is because very often, they result into increased economic activity, changes in composition of activity, changes in technology and production process etc. The scale and techniques of production of goods and services may affect climate change. For example, as more goods and services are produced, so is the greenhouse gases (GHGs) emitted that affect climate change. The current production levels of China and India can be sited as an example.

The composition of the economy may also have an impact on GHGs emission. For example due to liberalisation, some countries may adopt policies that promote sectors such as steel and petroleum that may be more GHGs intensive than others due to the resources available and the level of development.

Techniques and technology used also have an impact on GHGs emission. Trade liberalisation and investment agreements may bring new techniques of production that are more energy efficient which may lead to less emission of GHGs. However, there are also incidences where new investments especially in poor countries may increase the emission of GHGs as investors in such inefficient technologies move away from restrictive markets to countries that are poor with limited regulations and hungry for investments such as leather tanning industries, coal based industries, etc.

Since goods produced have to be traded and therefore transported to market destinations, transportation increases GHGs right from road to air and marine transport. Unlike other effects, this may not be avoided, but the effect may be minimized by adopting more efficient technologies used in the different modes of transport such as energy efficient modes of transport.

Climate change policies such as carbon taxes, border carbon adjustment and regulation of bunker fuels can negatively affect trade and increase the cost of doing business. For example, with the introduction of CO_2 emission tax for air travel, air tickets have become more expensive.

However the global nature of the negative effects of climate change means that very often, countries are affected irrespective of the different levels of emission. In this aspect, trade can play an important role both in mitigation and adaptation to climate change. There are also new opportunities that may arise such as the production of green technologies and goods and services. However, at the same time, trade can be hampered by the different measures that countries put in place to mitigate and address climate change such as regulations on international transport, measures to control carbon emission such as carbon tax, and carbon footprint among others.

COP 19: Negotiations and Outcomes

The 19th session of the Conference of the Parties (COP 19) took place from 11 to 22 November 2013 in Warsaw, Poland. The conference drew over 8,300 participants including 4,022 government officials, 3, 695 representatives of the UN bodies and agencies, intergovernmental organisations and civil society organisations, and 658 members of the media.

Negotiations in Warsaw focused on the implementation of the agreements reached at previous meetings. The meeting adopted a decision by the Ad Hoc Working Group on a Durban Platform for Enhanced Action (ADP) that invites parties to initiate and intensify domestic preparations for their intended nationally determined contributions, and resolved to accelerate full implementation of the Bali Action Plan and pre-2020 ambition. Parties also adopted a

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decision establishing the Warsaw international mechanism on loss and damage and a series of seven decisions on finance, institutional arrangements and methodological issues.

The Parties discussed the international mechanism for loss and damage associated with climate change impasse and long-term climate finance, i.e. the Green Climate Fund. There was a gap between what countries had pledged to do to curb emissions and what is needed to be done if average global temperature rise is to be restricted to 2°C above industrial levels. Global warming is expected to increase by 4°C if countries do not act.

However, reduction of GHEs may depend heavily on the dictates of the economic competition and commercial interests which may override the need to critically design strategies to combat GHEs. This could explain the low ambition towards the reduction of GHE commitments. In addition, developing countries felt that the developed countries broke the promised commitments to provide adequate funds and to transfer technology to them.

Adaptation will also require funding to address the gaps that are created by the commitments that developing and LDCs make.

Way Forward for Countries Like Uganda

The regulatory measures at the national, regional or multilateral level are needed to deal with climate change and involve the adoption by governments of price-based measures such as taxes and tariffs, market-based mechanisms and subsidies among others. Since these relate to trade, they may be subjected to WTO rules and procedures. The design of climate change programmes and the pursuit of international cooperation in this field will need to take into account the potential trade impact of these measures and the relevance of members' rights and obligations under WTO rules, as this will promote coherence.

There is a need for mutually supportive policies between climate change and trade, as this has often been hindered by the mandates of different institutions which often cause conflict. This will therefore require a closer collaboration between the different agencies handling trade and climate change issues to ensure that the positions adopted take into account issues related to trade. This should also apply to the negotiations at regional, bilateral and multilateral level.

Developing countries are also concerned that there are potential barriers, protectionism and the use of subsidies by developed countries, technology transfer, capacity building and financing. Although the green economy provides opportunities to developing countries, there is also concern that developed countries may use green protectionism, and a green economy might become a greed economy.

While the multilateral negotiations on climate change are vital, there is a need to examine the national process especially the development of mitigation action plans by developing countries. Establishing reduction commitments will require analysis of the economy in relation to green- house emissions coming from the different sectors of the economy. This will enable the country to understand the reduction commitments they can make. For example Uganda is heavily reliant on wood fuel for the majority of the rural population, though the country's gas emissions may be insignificant compared to global emissions. There is a need to understand what levels of reduction they can and should undertake.

In addition there are several products such as tea, tobacco which are major export products to Uganda but rely heavily on wood fuel for processing while others like steel use conventional blast furnaces which may be assumed to be environmentally unfriendly. All these factors need to be taken into account as Uganda prepares for COP 20.

Action Plans to mitigate climate change, do not clearly relate or emphasise the linkage between climate change and trade. For example in the Uganda Climate Change Action Plan (2007), the impact of climate change and the climate vulnerability is restricted to health; water resources; agriculture, wildlife, mountains, and rivers; and forests. The Ministry of Tourism, Trade and Industry at that time was represented by Wildlife department; there was no representation of the trade Department. Proper integration of trade issues will require the re-examination of Uganda Climate Change Action Plan to ensure that trade issues are analysed and integrated into the action plan.

On the other hand, there is also the need to examine the regulatory and voluntary instruments used for mitigation of climate change to ensure that they are not used to disguise protection of domestic markets. In cases where environmental requirements in importing countries are not burdensome for Uganda, the country may be better off by giving priority to meeting these.

Trade and climate change policies should therefore be reconciled to and made mutually supportive in achieving sustainable development by appropriate policies and measures at the national, regional and multilateral level, more especially at UNFCCC level.

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