



International Centre for Trade
and Sustainable Development

International Centre for Trade and Sustainable Development SUBMISSION

Views on options and ways for further increasing the level of ambition

Mandate: COP 17 Decision regarding the “Establishment of an
Ad Hoc Working Group on the Durban Platform for Enhanced
Action”

At the 17th Conference of the Parties (COP) in Durban, South Africa, Parties agreed to launch a process to develop a protocol, another legal instrument or an agreed outcome with legal force under the Convention, applicable to all Parties, under a subsidiary body called the Ad Hoc Working Group on the Durban Platform for Enhanced Action. The AWG-DP will address, inter alia, mitigation, adaptation, finance, technology development and transfer, transparency of action, and support and capacity building. Parties furthermore requested Parties and observer organizations to provide their views on options and ways for further increasing the level of ambition.

The International Centre for Trade and Sustainable Development (ICTSD) welcomes this opportunity to provide its views. Through a number of years, and particularly since the Bali Action Plan (2007), ICTSD has contributed to the deliberations of the UNFCCC on a number of key issues at the intersection of trade and climate change through its policy oriented research, regular reporting and dialogues. Its overall purpose is achieving a better understanding of the issues at stake and narrowing the gap in positions between stakeholders. In 2011, ICTSD stepped up its engagement with UNFCCC processes through formal submissions on technology transfer, response measures and emissions trading schemes. Furthermore, it has participated as a resource organization supporting the work that led to the establishment of a forum on response measures as well as the creation of the Technology Mechanism. The entry point of ICTSD in the context of climate change is trade, and the focus of the work of the centre is to explore ways in which trade can contribute effectively to sustainable development and global efforts to address climate change.

Although recognizing the urgent need to increase ambition in all the areas mentioned in the current decision, and acknowledging the important trade links in both adaptation and technology transfer, this submission will focus on ways to enhance ambition when it comes to mitigation.

Trade in the context of climate change

Trade and climate change are intrinsically linked. First, biophysical climate change impacts can be expected to alter the productive capacity of countries worldwide. Impacts on agriculture, fisheries, and societies will alter the comparative advantages that determine countries’ export specializations and trade patterns. In addition, an increase in extreme weather events related to climate change threatens the infrastructure necessary for trade. Thus, climate change affects trade and alters trade patterns as countries react, adapt, and adjust to the current or potential impacts.

Secondly, trade may directly and indirectly affect climate change. For example, international transport, an essential component in trade, is a direct contributor to greenhouse gas emissions (GHG). Moreover, trade-induced growth, with resulting production and consumption increases will cause GHG emissions to rise. At the same time, growth can constructively alter policy priorities and enable governments to address sustainable development issues.

Thirdly, trade policies can be used to address climate change, both from an adaptation and a mitigation perspective. For example, the removal of trade barriers with respect to climate-friendly goods and services will make these available at lower prices and stimulate the diffusion of climate-friendly technologies, thereby strengthening the ability of countries to mitigate and adapt to climate change.

Lastly, policies designed to address climate change can affect trade. Measures such as carbon taxes and emissions trading schemes that attempt to put a price on emissions, may affect the competitiveness of firms, and thus lead to “carbon leakage”. This can be transmitted through international trade: the underlying concern is that firms would risk losing markets shares, through trade, to firms in countries with less strict mitigation policies, or that firms would even relocate and new investment be concentrated in such countries. Related is a range of policies and measures, such as border carbon adjustments, the allocation of emissions allowances free of charge, national promotion of low-carbon technologies and clean energy or standards and labeling schemes.

A need to address trade in order to step up mitigation efforts

Concerns for carbon leakages and distortions to the competitive position of domestic industries are well spread, although the empirical evidence of such a development remains limited. It should however be emphasized in this context that, these concerns are often quoted as a primary reason why some countries are facing difficulties in moving ahead with effective, domestic carbon mitigation policies.

In spite of the significance of these concerns, and that they might go so far as to prevent effective mitigation action by some of the biggest carbon emitters globally, the UNFCCC has not to date provided a space for a conceptual discussion and scrutiny of these concerns. Whereas some of the issues could be dealt with under the new Forum on Response Measures, and others, notably an enhanced trade liberalization targeting climate friendly goods and services, by other agencies and processes such as the WTO, concerns about carbon leakage would require a dedicated discussion under the UNFCCC.

ICTSD therefore proposes that Parties explore the possibility of addressing trade under the AWG-DP. This could take the form of a number of concrete actions. First, the UNFCCC could foster dialogue on trade through the convening of dedicated workshops which would in particular consider the potential need to address concerns for carbon leakage, with the aim of enhancing mitigation action while minimizing the risks that Parties take their recourse to policies that unnecessarily restrict trade. These workshops would serve to provide Parties with state of the art research and evidence on carbon leakage, disaggregated to sectors and subsectors. Second, as appropriate, Parties could choose to initiate a structured discussion about the possible role for the UNFCCC in relation to trade, taking into consideration the differing views of Parties as to where a discussion on the intersections of trade could best take place- in the UNFCCC or in other for a such as the WTO, the Rio+20 process or elsewhere.