Ministero dell'Ambiente
e della Tutela del Territorio
e del Mare

ICTSD

International Centre for Trade
and Sustainable Development

Trade, Climate Change and Sustainable Energy Transition

Moustapha Kamal Gueye

International Centre for Trade and Sustainable Development (ICTSD)

Outline

- ***The changing energy landscape***
- ***The climate regime and international trade***
- ***Making the international trade system more responsive to climate change and a sustainable energy transition***

ICTSD (2006) *Linking Trade, Climate Change and Energy – Selected Issue Briefs*

The Changing Energy Landscape

- Increasing energy consumption: world set to use 60 percent more energy in 2030 than at present.
- Climate change, volatile and rising oil prices, and growing concerns over energy security.
- Renewable energies are on the rise, but incentives and investments remain insufficient.
- The entry into the WTO of large oil-exporting countries - OPEC members but also Russia and Central Asian countries is inducing structural changes in trade and energy - a bargain between energy exporters and importers >>> implications for trade rules on energy.

The Climate Regime and International Trade (1)

- Trade and climate change currently managed under separate and complex legal regimes.
- The Kyoto Protocol sets emissions reduction targets, but does not mandate specific policies to achieve those targets. Policy measures are to be set by respective countries.
- However, these measures, “should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade”.

The Climate Regime and International Trade (2)

- Some of the measures available to parties in the implementation of the Protocol, however, may have trade effects in certain cases: subsidies for renewable energy; carbon taxes; energy standards and labels; regulatory quotas on renewable energy use; and government regulations that favour environmentally-preferable products and processes.

- WTO rules – through disciplines on subsidies, border measures, technical requirements, government procurement and taxes – have crucial implications on options available to countries in implementing climate measures.

- Countries need policy space in the trade arena to implement climate policy measures, while also abiding by their commitments under the WTO agreements

Making the international trade system more responsive to climate change and to a sustainable energy transition

- ***Agriculture and Climate Change***
- ***Subsidies***
- ***Taxation***
- ***Standards and Labelling***
- ***Environmental Goods and Services***

Agriculture and Climate Change (1)

Agriculture and carbon sequestration

- Agriculture contributes to the climate change problem in as much as it does to its solution – 7% of US total CO2 emissions, potential to reduce US 1990 GHG emissions level by 12-40% (Pew Center on Global Climate Change, 2001).

- In Europe, some estimates suggest that changing agricultural practices on 20% of the land could take care of 9% of European reduction commitments under the Kyoto Protocol.

Agricultural Domestic Support in the WTO

Domestic Support

Amber Box

Trade distorting subsidies subject to reduction: support prices, or subsidies directly related to production quantities

Reductions expressed in "Total Aggregate Measurement of Support" (Total AMS) which includes products specific and non product specific supports in one single figure

De Minimis Exemptions

Trade distorting subsidies exempted from reduction if they represent less than 5% of value of production (10% for developing countries)

Blue Box

Production Limiting programmes based on no more than 85% of the base level of production.

At present allowed without limits

Green Box (Annex 2)

Non- or minimally trade distorting subsidies including direct/decoupled payments, environmental programs, food aid, insurance, income safety nets, etc.

At present allowed without limits

S&DT Box (Article 6.2)

For developing countries only: investment and input subsidies, domestic support to encourage diversification from illicit crops

No reduction commitments

Agriculture and Climate Change (2)

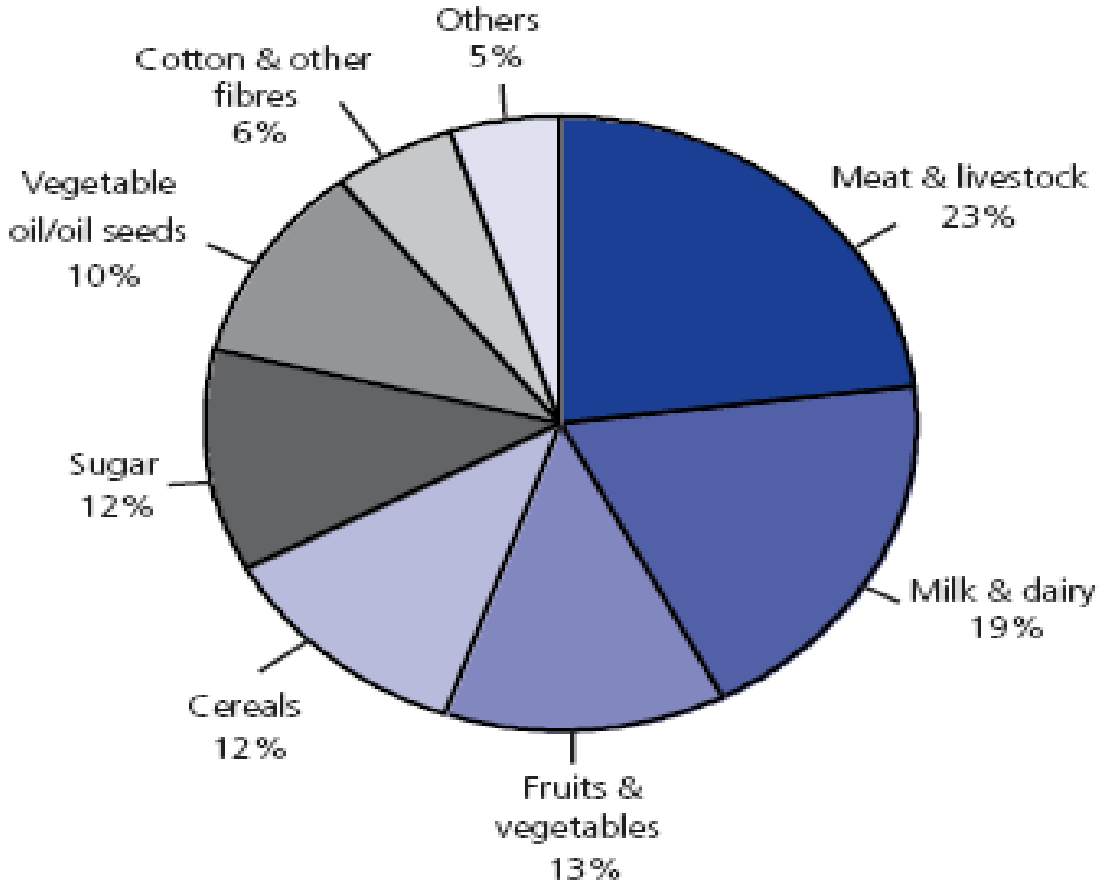
Supporting climate-friendly agricultural practices

- Subsidies for better management practices/carbon sequestration would theoretically fall into the Green Box.
- But production-related subsidies (Amber Box) are going to be cut.

Energy and climate change implications

- Support to crops used as feedstock in the production of biofuels may be actionable. AoA applies, difficult to justify under Green Box.

Distribution of Product-specific AMS (the most trade-distorting measures)



Source: WTO Secretariat.

Subsidies (1)

General rules on subsidies

- WTO Agreement on Subsidies and Countervailing Measures (ASCM) bans all export subsidies, industry/sector specific subsidies and subsidies that lead to discrimination against like imported products.

- All other subsidies are permissible as long as they do not cause adverse trade effects to another member.

Climate change and energy implications

- Industry/sector-specific subsidies are actionable and may be countervailed

Subsidies (2)

Possible options for energy subsidies

- ***Restoring the non-actionable 1995-2000 subsidy exemption clause*** to allow subsidies for R&D and technological development. Little progress in the negotiations.
  - The limits: only 20% of the cost of upgrading can be covered by the government. In comparison, agriculture's Green Box allows government support up to but not over 100%, as long as it does not have trade distortive effects.
- ***Subsidies based on objective criteria:*** automatic eligibility according to level of carbon emission or energy efficiency in general
- ***An energy Green Box:*** both for environmental reasons (climate change) and for economic reasons (market failure).

Taxation

General rules

- Carbon and energy taxes allowed on fuels, electricity and downstream industries sing energy as input –as long as applied equally to domestic and foreign products that are similar or 'like.'

- Border tax adjustment (BTA) is allowed as an energy tax on a product itself which is being levied or reimbursed at the border, such as a tax on an energy material or product. Opinion is divided however on whether BTA are permitted for taxable inputs that are not physically incorporated in the final product (e.g. implicit carbon content).

Climate and energy implications

- Applying a carbon tax to fossil fuels and exempting renewable energies – which are "directly competitive or substitutable" requires proving to the WTO that the two energy sources are not like or "directly competitive or substitutable" >>> the issue of PPM

Standards and Labeling (1)

General rules

- Standards and labels will play a large role in enabling both producers and consumers to participate in emission reductions.
- Significant impact on emission reductions: an estimated 80% of the climate change impacts of refrigerating plants are due to energy consumption.
- In the Doha Round, eco-labels and standards are being discussed in the context of EGS and within the negotiations on NAMA
  - In the NAMA negotiations, environmental standards and mandatory labelling, have been raised as potential non-tariff barriers.

Standards and Labeling (2)

- WTO Agreement on Technical Barriers to Trade (TBT) allows technical standards for the purposes of fulfilling legitimate environmental objectives, such as climate objectives (voluntary schemes fall outside the remit of WTO).
  - Rule of non-discrimination or unnecessary barriers to trade

Climate and energy implications

- Unlike most other WTO agreements, the TBT explicitly allows goods to be distinguished on the basis of PPM, with the condition that these PPM are product-incorporated.

Environmental Goods and Services (1)

- Para 31 iii of Doha mandate on negotiations for the reduction, or elimination, of tariffs and non-tariff barriers on EGS.
- Three types of goods leading to positive climate outcomes can be envisaged: low-carbon fuels such as ethanol or bio-diesel; renewable technologies such as solar cells or wind turbines; or energy efficient “environmentally preferable products” such as efficient refrigerators.
- Proposal for natural gas-based fuels submitted by Qatar
- Defining EGS: issues of ‘end-use,’ ‘process and production method’ (PPM) and ‘environmentally preferable products.’
- The distinction has implications for EGS, but also provides the rationale for carbon taxes, renewable energy quotas, eco-labels and standards.

Environmental Goods and Services (2)

Climate and energy implications: E.g. Bioenergy

- Ethanol and biodiesel fall under different product classifications:
  - Ethanol is considered an agricultural product, biodiesel is classified as a chemical (industrial good)
  - Implications in terms of the WTO rules and disciplines that apply to ethanol or biodiesel with respect to tariffs and subsidies
  - In Doha negotiations tariff reduction formula envisaged are much more ambitious in industrial goods than in agricultural goods.
- Proposal by India and Brazil but not included in the different lists proposed by developed countries.
- Developed countries want to exclude agricultural products from EGS negotiations.

ICTSD

International Centre for Trade
and Sustainable Development

Thank you

International Centre for Trade
and Sustainable Development (ICTSD)
www.ictsd.org

ICTSD is the publisher of BRIDGES Between Trade and Sustainable Development© and
BRIDGES Weekly Trade News Digest©, and co-publisher of
PUENTES entre el Comercio y el Desarrollo Sostenible©; and
PASSERELLES entre le commerce et le développement durable©; and
PONTES Entre o Comércio e o Desenvolvimento Sustentável©