



International Centre for Trade
and Sustainable Development

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Submission

Views and options to strengthen opportunities for cooperation and collaboration among Parties related to the forum and work programme on the impact of the implementation of response measures (Mandate: FCCC/SB/2014/L.2, para 4.)

The International Centre for Trade and Sustainable Development, ICTSD, welcomes the opportunity to provide its views on the issue of response measures, in particular with regard to views and options to strengthen opportunities for cooperation and collaboration among Parties related the forum and work programme on the impact of the implementation of response measures.

Introduction

At the 18th Conference of the Parties (COP) in Durban, South Africa, Parties adopted a work programme on the impact of the implementation of response measures and modalities for its operationalisation. With the same decision, Parties established a forum to implement the work programme. Several in-forum workshops have since then been organised to support the implementation of the work programme.

ICTSD has provided information and its views on the issue of response measures through two written submissions¹ and several presentations. In doing so, ICTSD has underlined the importance of addressing the trade and climate changes linkages.

This submission shows that there is a growing need to address the trade and climate change interface, and makes recommendations for Parties to strengthen cooperation and collaboration with regard to the impacts of the implementation of response measures, including on trade.

The trade and climate change interface

Trade and climate change are inextricably linked. Trade can be part of the solution to mitigate and adapt to climate change, for example by removing barriers to facilitate trade in clean energy goods and services. At the same time, measures taken to address climate change can have positive and

¹ ICTSD (2011a) "Submission on Information and views relating to modalities for the operationalization of the work programme and a possible forum on response measures" (submitted 6 April 2011), available at <http://unfccc.int/resource/docs/2011/smsn/ngo/286.pdf>; ICTSD (2011b) "Submission: Further views on the elements for the development of a work programme and a possible forum on response measures" (submitted 30 September 2011), available at <http://unfccc.int/resource/docs/2011/smsn/ngo/286.pdf>.

negative impacts on trade. For example, carbon pricing instruments may alter production costs, possibly affecting the competitive position of industries in the global economy, and national support schemes for low-carbon technologies can in some cases create a bias towards domestic producers and distort competition.²

The IPCC's Fifth Assessment Report (AR5) published earlier this year clearly acknowledges both the potential positive and negative interactions between climate change and trade, and shows the need to develop a constructive relationship between the two.³ There has also been a surge in climate-related WTO disputes, for example the Ontario-case⁴ on the province's feed-in-tariff programme for renewable energy or the ongoing case against India's local content requirements in its national solar programme.⁵ This further demonstrates the interaction between climate policies and the trade system.

Efforts to mitigate climate change are asymmetric. The levels of ambition and the measures chosen to achieve targets vary between countries. Such variation will likely alter competitiveness and lead to changes in the demand and supply of goods and services, thereby affecting trade flows in the global economy. This asymmetry is likely to prevail. Paris 2015 may produce a climate agreement based on domestic contributions, which can be expected to be achieved through a wide range of different regional, national and subnational climate measures. Together with increasing ambition in the mitigation effort, this is likely to lead to a rise of impacts of response measures, including on or through trade.

A lack of understanding of the impacts on or of trade can exacerbate fears for negative impacts and lead to a neglect of positive impacts. For example, a common concern raised by Parties implementing ambitious climate measures is that it would lead to emissions moving across borders to jurisdictions with no or less ambitious climate regulations. This concern for carbon leakage has, however, been largely unfounded so far.⁶ Similarly, the trade concerns raised by non-EU countries with regard to the inclusion of aviation in the EU ETS have not found much support in research.⁷ Such trade-related concerns, whether they are real or merely perceived as such, risk preventing countries from taking effective mitigation actions. Therefore, a lack of understanding of the trade-related impacts can lead to sub-optimal solutions, and may even cause bad-will in the broader climate negotiations.

The forum as a possible venue to address climate change and trade linkages

Against this background, it is increasingly important to address the climate change and trade interface. The response measures forum could be a useful venue for addressing some interlinkages

² For a more detailed overview of the trade and climate change linkages, please consult the submissions mentioned above in 1.

³ IPCC (2014), Working Group III contribution to the IPCC 5th Assessment Report "Climate Change 2014: Mitigation of Climate Change", Chapter 13, International Cooperation: Agreements and Instruments.

⁴ Canada – Certain Measures Affecting the Renewable Energy Generation Sector, Canada – Measures Relating to the Feed-In Tariff Program, WT/DS412/R, WT/DS426/R.

⁵ India – Certain Measures Relating to Solar Cells and Solar Modules, DS456.

⁶ Hans Bolscher et al. (2013) "Carbon Leakage Evidence Projects – Factsheets for selected sectors", Ecorys in consortium with Öko-Institut e.V., Cambridge Econometrics, and TNO.

⁷ Jasper Faber and Lara Brinke (2011) "The Inclusion of Aviation in the EU Emissions Trading System: An Economic and Environmental Assessment", Trade and Sustainable Energy Series, Issue Paper No. 5, International Centre for Trade and Sustainable Development, Geneva, Switzerland.

between climate change and trade. It can offer a space where Parties exchange information, assess measures and impacts, and engage in focused discussions about, inter alia, the impact of the implementation of response measures on trade.

It is, however, important that the forum respects the boundaries of the UNFCCC's mandate. Trade rule-making, implementing trade measures, addressing and resolving violations of trade rules, as well as trade liberalisation and trade reform fall into the mandate of trade bodies, particularly the World Trade Organisation (WTO), which can play an important role by helping to foster trade as a tool for climate action. Consequently, the linkages are best addressed in both the climate change and trade fora, and close coordination between the two communities is of importance.

Recommendations to strengthen opportunities for cooperation and collaboration

- **Robust reporting process:** In a world where mitigation largely takes place outside of the UNFCCC framework, for example in national Emissions Trading Systems or in the Climate and Clean Air Coalition, the role of the UNFCCC in monitoring and reporting is increasingly important. In the context of response measures, reporting is an essential basis for constructive and enhanced collaboration between Parties. Clear and structured guidelines on what and how to report could help produce transparent, consistent, comparable and accurate information. The guidelines could be used by Parties planning or implementing mitigation actions to report on their response measures, including assessments of possible effects on other countries - positive and negative - and demonstrating what will be done/is being done to minimise adverse effects, including on trade. The reporting on response measures could build on existing channels of information-sharing, for example the National Communications. This could be supplemented by reporting from countries on the receiving end on the observed impacts - positive and negative - of response measures in practice.
- **Assessment:** Assessing and analysing planned and implemented response measures as well as their potential and actual impacts could help identify and select mitigation actions that minimise adverse impacts for other countries as well as those that lead to positive impacts, including on trade. It could help countries make informed decisions when planning and implementing measures to respond to climate change. Assessments could also help those adversely affected by response measures to identify the best actions to address the impacts. Developing assessment methodologies and models could enhance the consistency and comparability of such assessments. This process would benefit from the involvement of experts.
- **Structured dialogue process:** The forum could provide a space for Parties to share information and expertise, discuss experiences, ask for clarifications, exchange views and provide comments on existing and proposed response measures. Parties could be invited on an ad-hoc basis to present their experiences with assessing and addressing response measures. Countries planning or implementing response measures could present their experiences with assessing measures, including efforts to minimise adverse impacts, while those being impacted by response measures of other countries could share their experience from the receiving end. Building on a robust reporting process and clear assessments, such a dialogue process has the potential to foster constructive and outcome-driven collaboration

on response measures. It could help inform policy choices of Parties planning and implementing response measures by taking into account the effects of their policies - positive and negative - on third countries. It could also help developing best practices for the implementation of response measures and in managing their impacts. A transparent and collaborative dialogue process on response measures can help foster good-will in the broader climate negotiations. Experts could contribute to the dialogue through independent and fact-based research.