



Workshop on Economic and Social
Consequences of Response Measures
(AWG-LCA - 5)

Spillover Effects of Consequences of Response Measures

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Annex I Parties policy options and measures will have adverse spillover effects on:

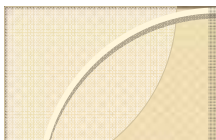
- Social;
- Environmental;
- Economic; and
- International Trade

...impact on Developing Country Parties



Outline

- **Policies and measures may be undertaken by Annex I Parties:**
 - ✓ Impacts on Developing countries
 - ✓ Trade relevant issues
- **Alternative sectoral approach:**
 - ✓ Aspects
 - ✓ Risk of spillover effects
 - ✓ Concerns
- **Conclusions**



Purely domestic

Policies and/or Measures	Consequences on Developing Countries	WTO Trade Issues
Carbon taxes or levies	Higher taxes on carbon intensive products will disproportionately harm exports from developing countries	Domestic carbon intensity taxes must comply with national treatment rule
Subsidies	Developing countries <u>have far less funds available to help their industries implement climate change measures.</u> Developed country subsidies <u>create artificial incentives</u> to switch from hydrocarbons to economically unwarranted energy sources	Must comply with the disciplines of the WTO SCM Agreement
Energy policy reform, green public investment	Developing countries are generally lagging in respect of “green” technology and will thus not benefit from this type of energy policy reform. <u>Shift away from fossil fuels will harm producing developing countries</u>	Potential WTO subsidies issues could arise if the government is providing goods or services that give benefits to “green” producers



Purely domestic

Policies and/or Measures	Consequences on Developing Countries	WTO Trade Issues
Cap-and-trade	Significant <u>market barrier</u> if equally applied to imported products from developing countries	Potential for violation of rules on import prohibitions or national treatment
Goods/technology mandates	Mandated use of certain goods will harm developing countries that do not use or trade in such products	Preferential treatment of certain goods may raise issues of discrimination between imported and like domestic products
Public research and development:	R&D spending will give further advantages to industrialized countries with technological advantage	WTO subsidies disciplines now apply equally to R&D subsidies



Trade - related

Policies and/or Measures	Consequences on Developing Countries	WTO Trade Issues
Tariffs	Potential for abuse of tariff increases for <u>protectionist purposes</u> under the excuse of “green” measures – will negatively affect developing country exports	Important WTO disciplines under GATT Articles I (MFN) and II (tariff bindings).
Standards and labelling requirements	Technical regulations and standards are <u>complex and costly</u> for developing country exporters	TBT Agreement impose disciplines on use of technical regulations and standards (e.g, non-discrimination).
Border carbon adjustment	BTA will have <u>very significant negative</u> impact on trade from developing countries. Risk of abuse beyond climate change due to difficulty in determining level of carbon tax adjustment	WTO disciplines require respect for tariff bindings, and non-discrimination. Equality of treatment based on product characteristics, not on production or process methods. BTA is to maintain competitiveness of domestic industry, not protecting the



International

Policies and/or Measures	Consequences on Developing Countries	WTO Trade Issues
Carbon taxes or levies	Carbon taxes will negatively affect developing countries that depend on export by air / ship to reach markets in industrialized countries.	Internal taxes have to comply with national treatment rules. Higher “carbon” taxes based on “carbon footprint” – violation GATT Article III
Cap-and-trade	<u>significant market barrier</u> if equally applied to imported products from developing countries	Potential for violation of rules on import prohibitions or national treatment
International offsets (CDM & JI)	Potential to mitigate negative effects of cap and trade for developing countries	Need to respect GATT Article I (MFN treatment) irrespective of origin or policies adopted in exporting countries



International

Policies and/or Measures	Consequences on Developing Countries	WTO Trade Issues
Technology cooperation:	Potentially useful for developing countries, but could be too little too late to undo other adverse effects of cap and trade measures	International technology cooperation does not raise any immediate WTO issues, if not linked to trade-related measures / market access
Subsidy reform:	Effects of removal of certain consumer or producer subsidies for fossil fuels could include drop in demand and prices – <u>this will negatively affect many developing</u>	Subsidy reforms must comply with WTO subsidies rules; not desirable to use sector-specific approach to subsidies



Outline

- Policies and measures may be undertaken by Annex I Parties:
 - ✓ Impacts on Developing countries
 - ✓ Trade relevant issues
- **Alternative sectoral approach:**
 - ✓ **Aspects**
 - ✓ **Risk of spillover effects**
 - ✓ **Concerns**



Essential aspects of the “sectoral” approach

- **Sectoral approach focuses on reductions by global industrial sector – focus on most polluting sectors**
- **Reduction targets not based on country level / country income**
- **Attempts to reduce GHG while maintaining competitiveness for industrialized countries**



Risk of spillover effects more pronounced with sectoral approach

Create additional risk of leakage: spillovers not on country basis but on sector basis.

1. International trade in factors of production:

- ✓ **Investment leakage from regulated to unregulated sectors as well as across regions.**
- ✓ **Sectoral restructuring - imbalances affecting supply and value-chain across the whole economy.**

2. International trade in goods and services other than energy goods:

- ✓ **Cost-effectiveness of certain sectors not affected - discriminatory.**
- ✓ **Increased potential for non-tariff barriers (protectionism) by sector focus (sector specific labelling, licensing, etc).**



Risk of spillover effects more pronounced with sectoral approach

3. Impact on governmental policies and trade of developing countries:

- ✓ **Sectoral approach imposes burden sharing on developing countries as country income is no longer the basis for reduction commitments.**
- ✓ **Loss of sovereignty: A global sectoral approach necessarily involves a compromise of the sovereign rights of states to choose how to reduce their own emissions “optimally.”**
- ✓ **Adoption of sectoral approach encourages non-climate policy goals such as energy security, energy independence, and international competitiveness, resulting in further socioeconomic costs and spillover effects.**



Why should all developing countries be concerned?

- **Sectoral approach implies that all developing countries will be affected:**
 - ✓ Developing countries are required to share burden of mitigation responsibilities
 - ✓ No potential gain in competitiveness for developing countries
- **Particular risk:**
 - ✓ Sectoral approach likely to target sectors in which developing countries have comparative advantages, including Agriculture, Iron & Steel, Aluminum, Oil & Gas, and Petrochemicals.
 - ✓ Sectoral approach likely to target sectors of importance to economic growth in developing countries (e.g. electricity, transport and cement industries).

Petrochemicals Sector

- Petrochemicals are vital export-oriented industries for energy-producing developing countries.
- In GCC, this sector is crucial for realizing comparative advantages, integrating the value chain, and diversifying economy away from dependence on crude exports.
- The industry accounts for more than 70% of the non-oil exports in the GCC region.
- Large differences in technologies exist between developing and developed countries, leading to striking contrasts in energy and carbon intensities:*

	Energy use intensity (Ktoe/1000US\$)	Carbon Intensity (Mt/1000US\$)
Developing	134.8×10^{-5}	43.3×10^{-7}
Developed	26.2×10^{-5}	4.2×10^{-7}

* (Source: UNIDO, 2007)



Petrochemicals Sector con...

- **Risk of disproportionate burden on developing countries:**
 - ✓ **Significance of difference in energy and carbon intensities in petrochemicals implies particularly high burden on developing countries**
- **Risk of loss of comparative advantages and export markets:**
 - ✓ **Fatal to industry in developing countries**
 - ✓ **Add-on effect on social welfare and on economic diversification efforts**
- **Risk of impact on global economy due to role of petrochemicals in production process**

Cement Sector

- Cement production is an essential industry supporting economic growth in many developing countries.
- Leading developing country producers include China, India, and Turkey.
- Sharp contrasts in carbon intensities:*

	Carbon Intensity (ton/ton of cement)
India	0.48
Turkey	0.45
Japan	0.23

- A uniform global approach for the industry will have disproportional detrimental impacts on economic growth in developing countries through increases in production costs.
- The negative growth impacts in developing countries will be transmitted through prices and trade to the rest of the world.

* (Source: Price et. Al., 1999)



Conclusions

- **Assessment of spillover effects of potential impacts of policies and measures by Annex I Parties.**
- **Safeguards against the use of sectoral approach**
- **Enhanced commitments from developed countries to assist developing countries by strengthening their resilience and adaptive capabilities to deal with unavoidable spillover effects.**
- **Establishment of a forum to address spillover effects associated with the use of a sectoral approach to mitigation.**



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