



No.36
SEPTEMBER 2015

POLICY BRIEF

Key points

- In the post-2015 development agenda, climate change policies with economic and trade aspects, and trade policies with climate change aspects, should be considered, regulated and implemented as mutually supportive in achieving sustainable development and alleviating poverty.
- UNCTAD can contribute by supporting UNFCCC and its various bodies in addressing economic and trade issues arising from a new climate change agreement, and by assisting developing countries in progressively greening their productive capacities and expanding trade in green goods and services.



UNITED NATIONS
UNCTAD

TRADE AND CLIMATE CHANGE POLICY BEYOND 2015

Trade policies can have an impact on the climate change mitigation efforts of countries, just as policies for addressing climate change can influence trade among countries. This relationship will enter a new phase in 2015 as significant changes in the policy landscape emerge from the adoption by the United Nations of a universal post-2015 development agenda, sustainable development goals and a climate change agreement.

A challenging collective transformation

There is a unique opportunity in 2015 for the international community to craft a global agenda for sustainable development that is people centered, economically and environmentally sustainable, climate change resilient and development oriented. Such an agenda includes responding to the climate change imperative of reducing global warming without undermining economic growth and social development for current and future generations. It should generate a long-awaited transformation in the global economy towards low-carbon, resource-efficient and socially inclusive development.

Such a transformation, which decouples economic growth and development from climate change, must proceed in a just and equitable manner. For developing countries, such decoupling should facilitate, and not undermine, opening new trade and investment opportunities, generating jobs, growing national economies, widening access to basic necessities and essential services, and reducing poverty. Developing countries thus call for emerging global governance frameworks to include key principles of common but differentiated responsibilities in climate change mitigation;

policy space in international trade agreements and in implementing sustainable development goals; and effective partnerships with developed countries and international institutions to provide required financing, technology and capacity-building, in addition to South–South cooperation.

With regard to climate change policy, negotiations on post-2020 action under the United Nations Framework Convention on Climate Change (UNFCCC) are expected to be finalized at the twenty-first session of the Conference of the Parties, in Paris in December 2015. These negotiations seek a legally binding agreement requiring all parties to make commitments to reduce greenhouse gas emissions and contribute to limiting the average global temperature rise to an agreed target of 2 degrees Celsius above pre-industrial levels.¹

The anticipated agreement will call on all countries to start lowering their emissions trajectories between 2016 and 2020. Beginning in 2020, national emissions trajectories should be further moderated, as the intended nationally determined contributions of countries to reduce emissions – specified in the agreement and provided by countries based on national circumstances – are realized. Some key economies have indicated that significant changes may be expected. In October 2014, the European Union announced a 2030 greenhouse gas emissions reduction target of at least 40 per cent compared to 1990 levels. The United States of America announced a 2025 emissions reduction target of 26 to 28 per cent of 2005 levels, and China announced plans to peak its carbon dioxide emissions and increase the share of non-fossil fuels in primary energy consumption to around 20 per cent by 2030.

In August 2015, President Obama announced the “Clean Power Plan”, as part of the climate change agenda of the United States. The Plan

¹ The UNFCCC Ad Hoc Working Group on the Durban Platform for Enhanced Action is preparing a draft of the potential new climate change agreement. A draft negotiating text was released in February 2015, covering the substantive content of the agreement, including mitigation, adaptation, finance, technology, capacity-building and transparency of action and support (see https://unfccc.int/meetings/geneva_feb_2015/session/8619/php/view/documents.php).

contains policies and actions to facilitate an accelerated transition towards use of cleaner energy. It sets achievable standards to reduce carbon dioxide emissions by 32 per cent, from 2005 levels, by 2030.

With regard to international trade, trade in goods and services has grown substantially, from about \$5 trillion in 1994 to about \$24 trillion in 2014. After the 2008 financial crisis, the expansion of global trade slowed. Yet there is optimism for better growth prospects in the period leading to 2030, which could be triggered by improvements in market openings through conclusion of the Doha Round of trade negotiations in the World Trade Organization and bilateral and regional trade agreements, including proposed megaregional agreements. Growing international trade is also inevitable given that the current rapid growth of the global population, especially in developing countries, will naturally raise the consumption of goods and services, which will be provided domestically and through trade.

The interplay between a climate change agreement and expanding international trade poses an important policy conundrum: behind every trade transaction there is a production process and, in turn, associated greenhouse gas emissions. Policies that modify trade (trade policies) can influence emissions, while policies for reducing emissions (climate change policies) can also influence trade. As the major direct sources of greenhouse gas emissions are related to production processes, climate protection measures addressing such sources can have a major impact on developing countries focused on increasing productive capacities to strengthen their integration into the global economy and trading system.² The impact of the circular interplay of climate change and trade policies in the coming years will greatly depend on the policy, regulatory and institutional frameworks of the future. It will also depend on markets, the consumers that populate them and their preferences.

Untangling climate change and international trade

The most direct way to reduce greenhouse gas emissions in an economy involves establishing a

² According to the Intergovernmental Panel on Climate Change, the shares of direct sources of greenhouse gas emissions in 2010 were as follows: 25 per cent from electricity and heat production; 24 per cent from agriculture, forestry and land use; 21 per cent from industry; 14 per cent from transport; 9.6 per cent from other energy; and 6.4 per cent from buildings (Intergovernmental Panel on Climate Change, 2014, *Climate Change 2014: Synthesis Report – Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* (Geneva)).

³ See table 5.5 in J Bishop, ed., 2012, *The Economics of Ecosystems and Biodiversity in Business and Enterprise* (London and New York, Earthscan).

⁴ See UNCTAD, 2014, *The Oceans Economy: Opportunities and Challenges for Small Island Developing States* (New York and Geneva, United Nations publication).

mix of policies, regulations and institutions that progressively green a nation's productive activities. By design, products and services in a green economy are produced in an environmentally friendly, socially responsible and equitable way. Such green products and services, whether traded or not, foster sustainable development. However, becoming sustainable is not only about greening production. On the other side of a product's life cycle is consumption (and eventually disposal), with a growing number of consumers that have preferences for green products. When consumers demand green products, market demand grows and producers respond.

Environmentally and climate-friendly production may be developed in terms of a sector – such as biodiversity-based products (the UNCTAD term is biotrade), organic agriculture and renewable energy systems – or across a national economy that adopts regulations requiring sustainable consumption and production practices. Great commercial opportunities exist for producers that respond to consumer preferences for natural, healthy, wellness-related, fair trade and bio products. It has been estimated that market opportunities for certified sustainable agricultural goods, valued at \$40 billion in 2008, may rise to \$210 billion in 2020 and \$900 billion in 2050.³ The ocean (blue) economy offers another new frontier for developing countries with sea zones, especially small island developing States, in sectors such as sustainable fisheries, marine energy, marine bioprospecting and marine and coastal tourism.⁴ For example in this area, UNCTAD has assisted Ecuador in developing an action plan to expand the production of chocolate from cocoa and another action plan to add value to and expand tuna exports. UNCTAD is currently assisting Vanuatu in reviewing opportunities for adding value to green exports such as coconut (copra and coconut oil), cocoa (chocolate) and sandalwood (oil).

In addition to green products destined for end-consumers, there are many green intermediate goods produced and exported for downstream producers. It takes people to make products, and greening the production chain should lead to the creation of green jobs, while lowering greenhouse gas emissions. For example, one estimate of the number of jobs created by the

clean energy economy in the United States was about 80,000 in 2013.⁵ Green jobs are created in a manufacturing activity and in the services that accompany the manufacturing activity if the product is consumed locally (in addition to exports), such as installation, sales and distribution, as well as research and development in the renewable energy sector.

Many transnational corporations have put in place strategies to reduce the carbon footprints of their global value chains and thereby green such chains, including such companies as ACCIONA, Alcatel-Lucent, International Business Machines and Walmart. The greening of global value chains creates green income and job opportunities in a range of countries situated along the value chain; each country supplies inputs for which it is an internationally competitive producer. This creates opportunities for transnational corporations with global value chains to integrate developing countries into the chains they manage and for developing countries to build regional value chains, such as in agrifood industries. A forthcoming UNCTAD study on prospective regional value chains in the agricultural sector in Africa found that potential for such chains exists for rice, legumes, maize, cotton, palm oil, beef, dairy, poultry and fisheries as well as cassava, sorghum and millet.

The link between green products and climate protection is clear. The production and trade of green products, including intermediate products, allows both production and trade to expand, while reducing damage to the climate and the environment. As green products displace otherwise brown products, the production and trade of green products lowers greenhouse gas emissions and other environmentally harmful emissions relative to business-as-usual. In addition, for every product there is a consumer. Green markets can result in trade expansion, as the market for green products is often much larger than the declining markets for local brown equivalents.

For trade to play a more supportive role in climate protection and sustainable development, markets need to be open to green goods and services. However, access to national markets

is obscured by tariffs and especially non-tariff barriers, substantially reducing the magnitude of trade in green products. For this reason, the Doha Round negotiations in the World Trade Organization on environmental goods and services seek an agreement to open markets by reducing tariffs and non-tariff barriers on green goods. The scope of negotiations is limited to the Asia-Pacific Economic Cooperation's list of 54 environmental goods, comprised mainly of advanced industrial manufactures. In 2012, Asia-Pacific Economic Cooperation leaders committed to reducing applied tariff rates on these goods to 5 per cent or less by the end of 2015. While universal participation in these negotiations needs to be restored, plurilateral efforts to liberalize trade in environmental goods are under way.⁶ Broadening the negotiations to include products of export interest to developing countries could produce substantially better outcomes in terms of trade expansion and environmental protection for developing countries.

Barriers to green products are not limited to border measures. National energy policies can also create obstacles to market access for renewable energy products. Many countries subsidize gasoline, diesel and natural gas fuels to encourage increased exploration and production and to keep prices low for consumers. Prices for renewable energy based on solar, wind, geothermal and biomass resources cannot compete on a real-cost basis with energy derived from government-subsidized fossil fuels. The phased reduction or elimination of fossil fuel subsidies is a key step that Governments can take to increase the share of renewable energy in their national energy matrices. Over 110 countries have noted the benefits of fossil-fuel subsidy reform in their national submissions to UNFCCC.⁷ Yet even as countries reduce and eliminate fossil fuel subsidies, the need for technologies and related financing for renewable energy sources and infrastructure becomes even more urgent, especially as cleaner energy offers a way to decouple economic prosperity from greenhouse gas emissions.⁸ UNFCCC has responded to this need by creating a green climate fund; initial commitments of \$10.2 billion

5 S. Marcacci, 2014, Clean energy created nearly 80,000 green jobs in America during 2013, Clean Technica, 14 March, available at <http://cleantechnica.com/2014/03/14/clean-energy-created-nearly-80000-green-jobs-in-america-during-2013/> (accessed 26 August 2015).

6 At the World Economic Forum in 2014, Australia, Canada, China, Hong Kong (China), Taiwan Province of China, Costa Rica, Japan, New Zealand, Norway, the Republic of Korea, Singapore, Switzerland, the United States and the European Union announced their commitment to achieving global free trade in environmental goods based on the list of the Asia-Pacific Economic Cooperation.

7 See Oil Change International, 2012, Fossil fuel subsidies, climate and the United Nations Framework Convention on Climate Change, Heinrich Böll Foundation.

8 See the statement by the Deputy Secretary-General of UNCTAD on the evolving landscape of clean energy governance and implications for international trade, available at <http://unctad.org/en/pages/SGStatementDetails.aspx?OriginalVersionID=145>.

have been raised, which nonetheless fall short of the expected funding requirements of \$100 billion annually by 2020.

Obstacles to market access can be found beyond national borders in the very policies that sustain national economies, including industrial policy and policies on the environment, government procurement, energy, infrastructure and consumer incentives. To artificially increase their competitiveness relative to producers in other countries, countries can – and sometimes do – provide relatively large subsidies to producers of green products or to consumers through incentives to purchase national environmentally friendly products. Such support can potentially lead to trade conflicts and the retaliatory application of trade remedies (import limitations, antidumping and countervailing duties, and border carbon taxes) at the borders of countries using trade defence measures.

Countries may also monopolize green jobs by artificially supporting the viability of a complete value chain within their borders, through the use of local content requirements,⁹ non-tariff barriers and trade remedies to block imports of foreign inputs. While multilateral trade rules help prevent such national monopolies (for example, the World Trade Organization Agreement on Trade-Related Investment Measures prohibits the use of local content requirements), to be effective, such rules need to be called into action by a complainant party and, even then, the formal resolution of disputes by a World Trade Organization appellate body may be a protracted process lasting several years.

While numerous scenarios may be conjectured for the evolution of conflicts arising between trade, on the one hand, and national green economy and climate change policies, on the other, one thing is certain: such conflicts are already taking place. Evidence to date reveals that the number of trade conflicts continues to rise as competition between producers of green goods and services intensifies. There is a clear trend of countries increasing the use of trade defence measures against renewable energy products. This trend actually accelerated in 2012–2013 among key producers of renewable energy. More than 41 cases on antidumping and countervailing duties have been initiated since 2008 against biofuel, solar energy and wind products.¹⁰

Clear guidance, including through World Trade Organization understandings and rules, could help define the scope of national policy flexibility for green economy and climate change policies. Consensus is needed in this area, not only to avoid disputes in the World Trade Organization but, more importantly, for Governments to carry out the design and implementation of effective policies for sustainable development and climate protection without the fear of costly reprisals from trading partners.

The Intergovernmental Panel on Climate Change recognizes that climate change mitigation policies can result in non-climate benefits or co-benefits, including those related to development, sustainability and equity and which have been incorporated as objectives of policies for the mitigation of greenhouse gas emissions. International trade can play an important role in leveraging such co-benefits. In the post-2015 period, as the global community focuses on implementing any new climate change agreement, follow-up analysis, review, monitoring and impact assessments under UNFCCC will also include economic, trade and development variables that fall under the scope of co-benefits. This provides an opportunity for increased collaboration on these issues between UNFCCC, UNCTAD, the World Trade Organization and other United Nations agencies.

Conclusion

In the post-2015 development framework, the relationship between climate change and trade policies should change to a more positive one, in which climate change policies with economic and trade aspects and trade policies with environmental and climate change aspects are considered, regulated and implemented as mutually supportive in achieving sustainable development and poverty eradication in the post-2015 period. UNCTAD can make a contribution, consistent with its mandate in the interrelated areas of trade and sustainable development, in support of UNFCCC and its various bodies (such as the Subsidiary Body for Implementation) in addressing economic and trade issues arising from a potential new climate change agreement.

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⁹ See UNCTAD, 2013, *Local Content Requirements and the Green Economy* (New York and Geneva, United Nations publication).

¹⁰ C Cimino and G Hufbauer, 2014, Trade remedies targeting the renewable energy sector, presented at the Ad Hoc Expert Group Meeting entitled "Trade remedies in green sectors: The case of renewables", Geneva, 3–4 April 2014, available at http://unctad.org/meetings/en/SessionalDocuments/ditc_ted_03042014Petersen_Institute.pdf (accessed 26 August 2015).