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“Liberalization of Trade in Environmental Goods for Climate Change Mitigation” Mahesh Sugathan* - Selected Overview and Extract

COSBEY, A. “*Trade and Climate Change: Issues in Perspective*”, Copenhagen Conference Summary, IISD, October 2008

KEY ISSUES

- Trade is an important channel for the diffusion of goods to mitigate climate change. Lowering trade barriers brings their prices closer to world market prices, making them more affordable to consumers (industry and households) thereby reducing climate mitigation costs overall. Lowering tariffs on climate mitigation goods can also contribute to UNFCCC technology transfer mandates by facilitating access to these goods.
- Trade barriers can be lowered autonomously. More importantly, countries can engage in multilateral, regional or bilateral trade negotiations to lower barriers with binding commitments.
- Trade liberalization is only one of a range of factors—including gross domestic product (GDP), foreign direct investment (FDI), environmental regulatory frameworks and technical assistance—that affect actual trade in and diffusion of climate mitigation goods. Fiscal incentives, investment frameworks and intellectual property-related costs also determine access to, and affordability of, climate mitigation technologies.
- Many developing countries have other objectives, such as safeguarding sensitive industries and building domestic capacity, which may discourage them from pursuing all-out liberalization in climate mitigation goods.
- Negotiations on the liberalization of environmental goods and services (including climate mitigation goods) within the WTO Doha Round face some specific challenges. Definitional issues related to environmental goods remain unresolved. Complexities also exist with regard to their classification for customs purposes, making selective liberalization of climate-friendly goods challenging. The modalities of liberalization also remain contentious.

INTRODUCTION

The Stern Review has highlighted the potential contribution trade liberalization in clean technologies could make to climate change mitigation. Such trade liberalization could contribute positively towards moving economies onto “low-carbon” trajectories to the extent that it drives diffusion and access to low-carbon and energy-efficient technologies, as well as to renewable sources of energy.

Trade is an important channel for the diffusion of many climate mitigation technologies and goods. Few countries have the domestic capacities or know-how to produce all that they need. This is particularly true for developing countries, and although building domestic capacities may be their long-term goal, trade liberalization can provide rapid access to key technologies. Trade liberalization—whether locked in through negotiations at the WTO or elsewhere, or undertaken autonomously—can also lower the costs of environmental goods by allowing consumers (industries or households) to purchase them at world market prices.

A 2007 World Bank study, *International Trade and Climate Change*, points to the potential for liberalization in the area of low-carbon goods to lead to real increases in trade flows. According to Bank estimates, the removal of tariffs for four basic clean energy technologies (wind, solar, clean coal and efficient lighting) in 18 developing countries with high greenhouse gas emissions would result in trade gains of up to seven per cent. The removal of both tariffs and non-tariff barriers could boost trade by as much as 13 per cent. The net effect would, however, vary across technologies and across countries, depending on existing barriers and the import elasticities of demand.

Coupled with appropriate supportive measures, trade liberalization of climate technologies can also contribute towards fulfilling the technology transfer mandates contained within the UNFCCC. Similarly, trade

liberalization can complement negotiations within the WTO Working Group on Trade and Transfer of Technology, which is mandated to “examine the relationship between trade and transfer of technology, and of any possible recommendations on steps that might be taken within the mandate of the WTO to increase flows of technology to developing countries.”

This section will survey the key issues surrounding liberalized trade in low-carbon goods. It begins with an overview of progress to date in the WTO’s negotiations on environmental goods and services. It then asks what the limitations of the liberalization approach are. If the final objective is contributing to climate change mitigation by increasing the dissemination of low-carbon goods and technologies (while also fostering an open multilateral system of trade), then are there other efforts that need to be considered as necessary or desirable complements to lowering tariff barriers? Clearly, trade barriers are only one of an array of factors from fiscal incentives, the nature of investment frameworks, availability of finance and intellectual property rights-related costs that determine access to and affordability of climate mitigation technologies. To conclude, this section asks what modalities are available for liberalizing trade in low-carbon goods, both within and outside the WTO.

CONCLUSIONS AND RESEARCH AGENDA

There are a number of areas in which more research would be helpful in furthering any efforts to liberalize trade in low-carbon goods and services. One of the most basic needs is perhaps for research to quantify the amount of actual GHG emission reduction that would transpire under the various liberalization scenarios. The World Bank has done some preliminary assessment of trade impacts, but there has been no effort to translate these into environmental impacts. It would be good to confirm or deny the environmental significance of the grand efforts that have gone on in the Doha Round.

It would also be good to know more about the non-tariff barriers that these goods face—to identify them, consider the challenge of lowering them and try to compare their significance to tariff barriers.

Also valuable would be policy research on what sorts of criteria or guidance might be helpful from outside sources in the WTO’s task of defining environmental goods and services, or in the related task of defining low-carbon goods and services. This would include exploring what organizations might be legitimate providers of this sort of guidance.

There is a fundamental need to describe what technologies are needed by developing countries in addressing their climate change challenges; this is a basic prerequisite to any sort of demand-driven list of goods that those countries might use for climate change mitigation (and adaptation). There have already been technology needs assessments under the UNFCCC process, and this research could build on that. The

research might also try to identify and describe the salient barriers to the dissemination of the identified technologies.

There is also a need for more thinking about liberalization of trade in environmental services, and its environmental potential. Similarly, there is a need for research that tries to explore the relationship between liberalization in environmental goods and services and investment, given the strong links that exist.

In the end, it seems that the liberalization of climate mitigation goods will bring benefits mainly to developed and a few middle-income developing countries, and may not lead to any environmental benefits in developing countries that lack purchasing power or have other import priorities. In fact, in view of the current state of progress, it may be that the negotiations under the WTO Doha Round will not result in any ambitious outcome on the liberalization of climate mitigation goods. In this case, other alternatives should be explored. These include negotiating an agreement within the WTO that would come into force only when a certain number of Members join, or a plurilateral agreement outside the WTO framework. Liberalization through regional trade agreements (RTAs), which would not necessarily need to single out EGS as a category, may be a more straightforward option.

Whatever the forum, any liberalization package will need to be complemented by a set of financial and technical assistance measures. The impact of trade liberalization for climate change mitigation efforts will only be as effective as the broader enabling framework within which it is put into play. While some measures may be accommodated within a WTO Agreement on EGS, others may require other appropriate institutional homes, such as the UNFCCC. Whether any formal link should be made between EGS negotiations and the UNFCCC process, however, is debatable.

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