



## Global Policy Coherence 2009

Governance | climate - finance - trade

### “Lamy: Doha could deliver double-win for environment and trade”

Informal Trade Ministers’ Dialogue on Climate Change

Pascal Lamy\*

Bali, 8-9 December 2007

The issue of Climate Change intersects with international trade in a multitude of different ways. While the World Trade Organisation does not have rules that are specific to energy, to the environment or to climate change per se, there is no doubt that the rules of the multilateral trading system — as a whole (i.e. the WTO “rule book”) — are indeed relevant to climate change.

Today, there are many different perceptions of what the trading system ought to do on climate change. While some would like to see the trading system curb its own “carbon footprint,” through the greenhouse gas emissions it generates in the course of the production, international transportation, and consumption of traded goods and services; others would approach the issue differently.

Some would like to see the trading system offset any competitive disadvantage they suffer in the course of climate change mitigation. More specifically, they would like to impose an economic cost on imported products at their borders equivalent to the one they suffer in curbing their own emissions. In other words, a “levelling of the playing field” of sorts, if you will, based on an importing country’s perception of how that field may best be levelled.

And, of course, there are many different ideas floating on what these (quote unquote) “offsetting” measures may be, with most of the discussion naturally focussing on countries’ most trade-exposed, energy-intensive, economic sectors like iron and steel and aluminium. For instance, while some are considering the imposition of domestic carbon taxes, with adjustment for those taxes at their border; others are contemplating emission cap-and-trade systems, with an obligation upon importers to participate in those systems.

Yet another group would prefer to focus on what is most immediately “deliverable” — if I may say so —

by the trading system in terms of the fight against climate change. And by this, they mean the opening of markets to environmental goods and services; in particular to those that are relevant to climate change, through the ongoing Doha Round of trade negotiations.

These are but a few of the ideas I have heard so far on how some would like to position the multilateral trading system on climate change. But there are other ideas for sure, and much work is being conducted at the moment — in various quarters — on how the WTO tool box of rules may be leveraged in the fight against this environmental challenge. While some are looking at WTO rules on taxes, others are looking at the rules on subsidies and intellectual property for instance.

My starting point in this debate is to say that the relationship between international trade — and indeed the WTO — and climate change, would be best defined by a consensual international accord on climate change that successfully embraces all major polluters. In other words, until a truly global consensus emerges on how best to tackle the issue of climate change, WTO Members will continue to hold different views on what the multilateral trading system can and must do on this subject.

There is no doubt that trade regulations are not, and cannot be, a substitute for environmental regulations. Trade, and the WTO toolbox of trade rules more specifically, can — at best - offer no more than part of the answer to climate change. It is not in the WTO that a deal on climate change can be struck, but rather in an environmental forum, such as the United Nations Framework Convention on Climate Change. Such an agreement must then send the WTO an appropriate signal on how its rules may best be put to the service of sustainable development; in other words, a signal on

## GPC2009 Information Package - Part III.6

how this particular toolbox of rules should be employed in the fight against climate change.

Absent such a signal, confusion will persist on what would constitute an appropriate response by multilateral trading system. Let us take the issue of the international trading system's carbon footprint for instance. Much is said in the press everyday about the carbon footprint of international transportation. In fact, a new and emerging concept is that of "food miles." In other words, the desire of consumers in certain countries to calculate the carbon emitted in the course of international transportation, with many already drawing the conclusion that it may be better to (quote unquote) "simply produce goods at home" to minimise emissions.

But that argument does not always stand up to empirical verification. In fact, 90% of internationally traded goods are carried by sea. And maritime transport is by far the most carbon-efficient mode of transport, with only 14 grams of CO<sub>2</sub> emissions per ton kilometre. Shipping is followed by train transport, then road transport. Air transport has by far the highest CO<sub>2</sub> emissions per ton kilometre (a minimum of 600 grams), illustrating the high relative climate impact of such transport.

- In addition, various studies conducted on the "carbon mileage" of traded goods, have shown that the issue can often be counter-intuitive, if I may say so.
- For instance, some studies show that a Kenyan flower that is air-freighted to Europe emits 1/3d of the CO<sub>2</sub> of flowers grown in Holland.
- Others show that New Zealand lamb that is transported to the United Kingdom can actually generate 70% less CO<sub>2</sub> than lamb produced in the UK.
- Similarly, some of the fertilisers produced in the United States and transported to Europe can generate 13% less CO<sub>2</sub> than fertiliser produced in Italy. And so on.
- Now, I am not saying that this will always be the case, but surely then, this is an issue in need of case-by-case analysis, and empirical verification. In the case of food, in particular, we must not ignore the cost of greenhouses in colder climates, and of energy-expensive out-of-season storage.

Only a multilateral approach to climate change would allow us to properly address these issues. A multilateral agreement, that includes all major polluters, would be the best placed international instrument to guide other instruments, such as the WTO, as well as all economic actors on how negative environmental externalities must be internationalised. Only with such an

instrument can we move towards the proper pricing of energy.

Similarly, only such an accord could act as a proper arbiter of the measures that are indeed environmentally necessary at a country's border. In fact, an effective multilateral solution to climate change could and should do away with the need to (quote unquote) "offset" competitive disadvantages, when countries perceive themselves to be making equitable emission reductions. In other words, to be operating within an environmental architecture that would itself successfully level the playing field, based on recognised principles of international environmental law such as Common but Differentiated Responsibility.

Now, in working towards an international accord on climate change, countries will certainly have to reflect on the role of international trade within such an accord. Trade leads to efficiency gains, allowing countries to specialise in what they are best at producing. And trade also leads to economic growth, offering countries the possibility of investing this growth in pollution prevention and abatement if they take the political decision to do so. But for the benefits of trade to truly materialise; in other words, for its efficiency gains to also translate into fewer greenhouse gas emissions, the right environmental context must be set for trade. In other words, energy must be properly priced, and production processes adjusted accordingly. It would then be incumbent upon the trading system to respond to such environmental rules as soon as they are crafted.

The WTO tool-box of rules can certainly be leveraged in the fight against climate change, and "adapted" if governments perceive this to be necessary to better achieve their goals. The WTO has rules on product standards for instance, that encourage its members to use the international norms set by more specialised international institutions. The WTO has rules on subsidies, taxes, intellectual property, and so on. All of these tools can prove valuable in the fight against climate change, but in that fight, would need to be mobilised under clearer environmental parameters that only the environmental community can set.

In the absence of such parameters, the WTO will continue to be pulled from left to right by different players, with only a faint possibility of landing in the centre! Each of its members will have a different interpretation to offer on how the playing field may best be levelled. And I would caution against such an outcome; the world could end up with a real spaghetti bowl of "offsetting" measures that achieve neither nor trade nor environmental goals.

There is no doubt that an immediate contribution that the WTO can make to the fight against climate change is to indeed open markets to clean technology and services. The Doha Round of trade negotiations offers an avenue for expanded access to products such as

## GPC2009 Information Package - Part III.6

scrubbers, air filters and energy management services. But, as can be expected, what is and is not an environmental good is a topic that is hotly debated.

For economists, matters appear to be clearer. They tell us that, today, the global market for environmental goods and services is estimated to be worth more than \$550 billion dollars every year. The OECD estimates that green services account for 65% of this market and green goods 35%. Climate change prevention and mitigation products and services represent an important proportion of these numbers.

Launched within a broader context of the Doha Round's environmental chapter, which also includes issues such as the reduction of fisheries subsidies, and enhancing the mutual supportiveness between WTO rules and multilateral environmental agreements, the negotiations on environmental good services could deliver a double-win for some of our members. A win for the environment and a win for trade.

- For a country such as Indonesia, that is amongst the world's top 10 exporters of steam condensers, this mandate can represent such a double gain.
- The same for India, that is amongst the world's top 10 exporters of hydraulic turbines; or Malaysia that is amongst the world's top 5 exporters of photovoltaic cells; or Thailand that is amongst the world's top 10 exporters of filtering and purifying machinery for gases.

Surely we should not miss an opportunity to open markets for clean technology and services in the Doha negotiations. But, in doing so, we should be cognisant of the fact that, ultimately, it is the existence of environmental regulations that will drive demand for these goods and services. Hence the importance, once again, of setting the right environmental framework within which market opening can take place.

A multilateral approach to climate change, that centres on collective action, is absolutely key.

---

\* *Pascal Lamy is Director-General of the World Trade Organization*