Rethinking Climate Change Governance and Its Relationship to the World Trade System

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Climate-Trade Linkages

- Emission reductions
  - Trade leakage.
  - Global energy markets.
- REDD

Free trade frustrates efforts to reduce net emissions.

- Climate related policies *not* linked to trade
  - Adaptation.
  - Industrial “air capture.”
  - Geoengineering (“SRM”).

Climate-Trade ***Policy*** Linkages

- So far, climate and trade policy have *not* been linked formally.
- But, so far, climate policy has been ineffective.
- And this may be partly because climate and trade policy have not been linked.

Status of Climate Negotiations

Rio 1992 → Kyoto 1997 → Copenhagen 2009 → Cancun 2010 → Durban 2011

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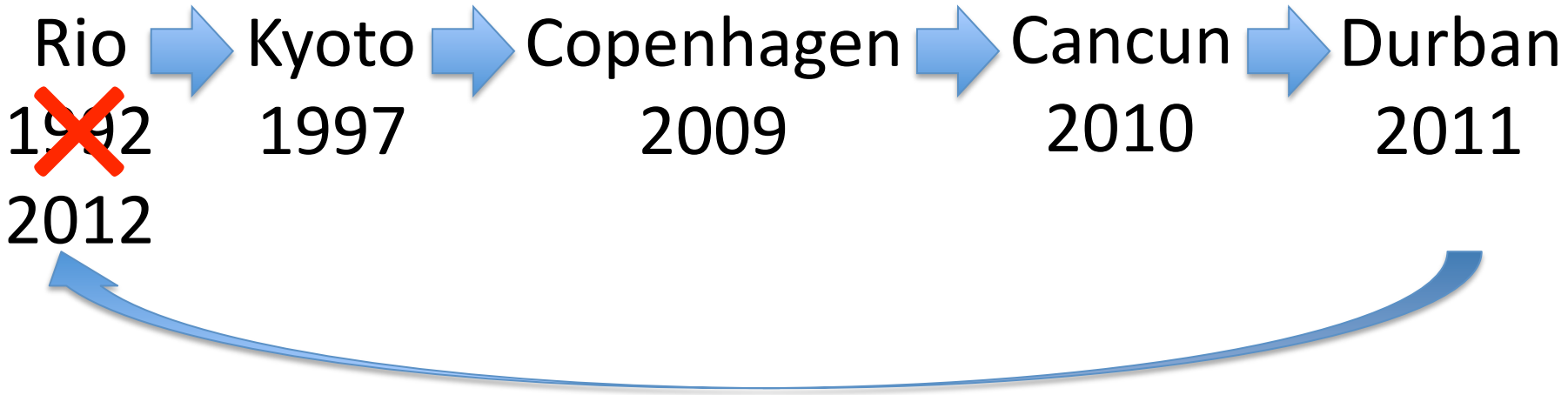


"Climate [change talks] are the most important negotiations the world has ever seen, but governments, business and civil society cannot solve it in one meeting."

Christiana Figueres, executive secretary UN Climate Change Secretariat
Bonn, June 2011

Consequences?

- With climate negotiations failing, some countries may act unilaterally or minilaterally.
- And link their climate policies to trade.
- This may put the trade system at risk.
  - EU plans to extend ETS to international air transport.
  - H.R. 2454 (not law) possibly requires importers to obtain emission permits, when imports produced in countries lacking “comparable” emissions limits.
  - Sarkozy proposal to impose tariffs to address carbon leakage.

How to Move Forward?

- Ultimately, climate change needs to be addressed at the global level.
- Might multilateral approaches succeed more if they formally linked climate policy to trade policy?

Reasons for Trade Restrictions

1. Limiting/neutralizing leakage.
   - Rate higher, the greater the emission reduction and the smaller the number of countries acting.
   - Leakage could be 0 < or > 100%.
   - For Kyoto, one estimate ≈ 20%; actual, small.
   - $21/tCO2 Japan & EU-15, leakage 55% iron and steel.
   - €20/tCO2 EU-27, leakage 0.5-25% iron and steel; 40-70% cement.

- In theory, a full BTA could neutralize leakage (except for energy markets).
- In practice, calculating this very difficult.

Reasons for Trade Restrictions

2. Punishing/limiting/deterring free riding.
   - Trade restrictions would apply as between parties and non-parties.
   - Primary intent would be to promote participation.
   - Would also be used to punish/limit/deter non-compliance.
   - If participation is full, leakage is 0!
   - In contrast to a BTA, can be crudely calculated.

Lessons from other IEAs

1911 North Pacific Fur Seal Treaty

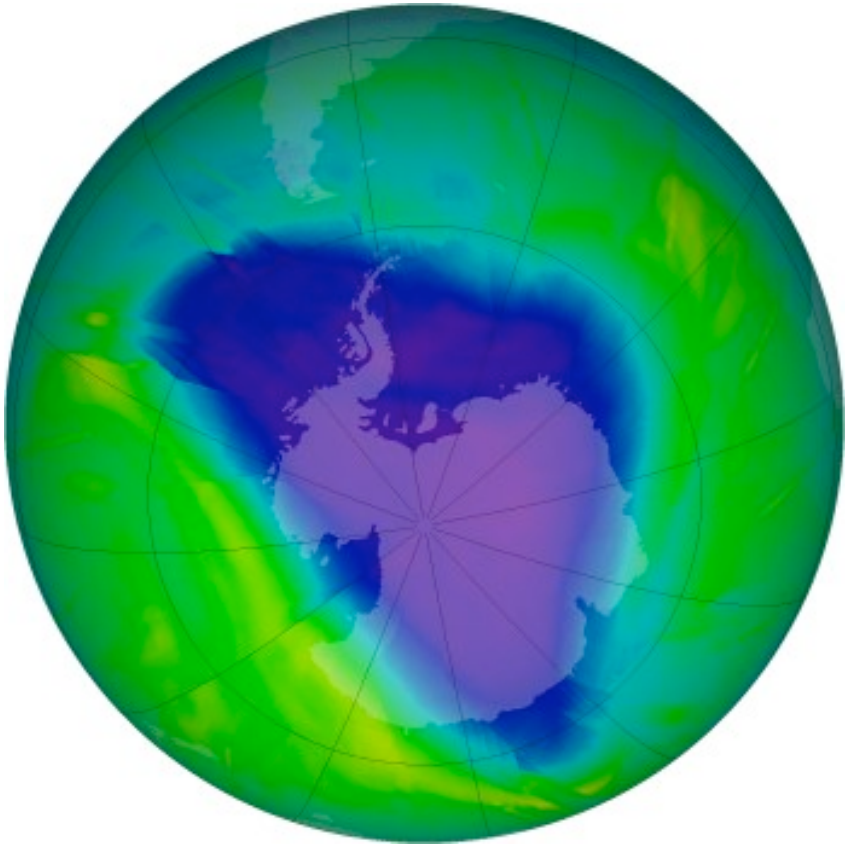
- To deter entry, treaty banned imports of non-authenticated seal skins.

International Convention for the Conservation of Atlantic Tuna

- To punish parties and non-parties for IUU fishing.

Montreal Protocol

- To deter non-participation.



International Convention Prevention of Marine Pollution from Ships

- Prevents ships not complying with the standards from entering ports.

International Civil Aviation Organization

- Establishes standards, which parties may adopt in national laws, preventing aircraft that violate the standards from landing within its territory.

Why KP Does Not Incorporate Trade Restrictions

- Limits "production" of emissions. By contrast MP limited production and "consumption." The obligations of KP are not geared to enforcement using trade restrictions.
- Enforcement mechanism was negotiated later.
  - One component required "self punishment."
  - Another suspension of emissions trading privileges.
  - Neither was adopted by amendment.

Diagnosis of Failure

- Following Copenhagen, many people concluded that the *process* had to change.
- Cancun reaffirmed, at least for now, support for the old process.
- While that process has failed for 20 years, what must change is the *approach*.

Proposal for a New Treaty Design

- A multiple of protocols, controlling different gases and sectors.
- MP is already the best climate treaty, controlling numerous ODSs that happen also to be GHGs.
- KP separated out international aviation and marine transport.
- Also, domestic implementation controls sectors, not economy-wide emissions.

Examples

- **HFCs**. Under the MP; this would be global and enforced using trade restrictions.
- **Aviation**. ICAO Programme of Action to develop "the first globally-harmonized agreement from a sector on a goal to address its CO_2 emissions."
- **Iron and steel**. Perhaps a new standard requiring that the Hlsarna steelmaking process replace the basic oxygen furnace process.
  - Trade would be restricted to countries complying with the standard.
  - Carrots as well as sticks.

Examples (cont'd)

- **Automobiles**. International standard for the electric car and for recharging.
- **Electricity generation**. Difficult because electricity is not highly traded and generation is not networked.
    - All new coal-fired power plants CCS by 2020; all coal-fired power plants CCS 2050.
        - No "comparability problem."
        - Compensation for "incremental costs" easy to determine.
        - Could supplement with trade restrictions for particular sectors, such as aluminum manufacture.

Conclusions

- Multilateral approaches to climate change are needed. The approach tried so far has failed.
- It has failed mainly because of enforcement problems.
- Failure may cause countries to adopt trade restrictions unilaterally.
- To address both problems, it would be better to try a new approach to treaty design, using trade restrictions where appropriate to enforce participation and compliance.