

Jaime de Melo, Ferdi

February 23 | WTO E15 General Briefing



FONDATION POUR LES ÉTUDES
ET RECHERCHES
SUR LE DÉVELOPPEMENT
INTERNATIONAL

**E15 Initiative on
Strengthening the Global Trade and Investment System for
Sustainable Development**

**Global Rules for Mutually Supportive and Reinforcing Trade
and Climate Regimes**

Establish Communication between Climate (UNFCCC) and Trade (WTO) Regimes

- Address legal overlap between climate and trade regime.
Develop/implement MRV (Monitoring, reporting, verification) to check on progress in implementing NDCs (nationally determined contributions submitted at COP21).
- Require that WTO agree to be bound by judgments in any climate dispute settlement mechanism (DSM) ----DSM for climate compliance to be established).
- Put a “Peace clause” (say 3 years) for climate action. WTO members would be requested to wait before challenging national climate measures (say wait to challenge a Border tax adjustment measure)

Recognize implications of embedded carbon in trade

- Average leakage rate $\approx 12\%$: Border carbon adjustment for energy-intensive trade-exposed sectors (aluminium, steel, cement,...) cuts leakage rate by 1/3.
- WTO, UNFCCC : establish an agreed common international standard for calculating the amount of carbon in making traded products
- Outdated classifications for Goods and Services. Reform HS system at WCO to better distinguish GEM and EPPs; Reform classification of ESs (only 4/155 Service subsectors classified as ESs).
- Re-establish distinction 'good'- 'bad' subsidies; Re-instate green subsidies.
- Compulsory monitoring of fossil fuel subsidies (equivalent to current TPRM)

Shift WTO from a negative to a positive contract

- Currently WTO members can choose environmental policies they wish (except for green subsidies and diluting exchange of market access to partners).
- Obligation to address environmental damage. Establishment of likeness should be a question of policy, not of market-likeness as perceived by consumers
- Ensure that WTO rules apply to international emissions trading schemes and that «free allowances» are actionable subsidies under WTO rules.
- Legalize environmental labelling via recourse to ISO standards (now outcome uncertain under case law). Using an ISO std. Guarantees immunization from challenges at WTO.

Climate Clubs & Sectoral approaches as building blocs

- Move from country-based plurilaterals (i.e. FTAs where environment provisions are weak) to issue-based plurilaterals to liberalize environment-friendly trade (as under current EGA) and to address free-riding.
- Change WTO law. Then a carbon club for say OECD members could allow members to raise tariffs on shirkers by punishing free riders with an across-the-board tariff on imports. [This has been shown to be an incentive-compatible punishment (most other punishments in MEAs are not)] .
- Sectoral deals (take cue from Montreal Protocol and MARPOL). Rely on sectoral deals [maritime (e.g. IMO to set limits on CO2 emissions), arctic deal to address black carbon, aviation (e.g. ICAO to set emission limits or taxes)].