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Climate Change Meets Trade:

The rapidly expanding agenda in the post-Bali period

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Events during the Bali COP-13/MOP-3 international climate change conference in December 2007 made it abundantly clear that climate change and international trade issues have now intersected to create a new, wide-ranging and rapidly-expanding joint climate-trade agenda. The most conspicuous and symbolic such event during the Bali conference was the informal trade ministers meeting – the first trade ministers meeting in history held during a climate change conference. However, a variety of developments over the past few years – and especially in recent months – outside the formal venues of the UN Framework Convention on Climate Change (UNFCCC) and the World Trade Organisation (WTO) have also caused diverse and recurrent intersections of climate and trade issues. Such intersections are likely to increase in number and significance for some years to come.

Among the numerous types of intersections that have already emerged are the following:

- *Offsetting border measures that address international competitiveness concerns.* Such measures have been discussed in the European High-Level Group on Competitiveness, Energy and Environment and are considered in the review of the EU Emissions Trading Scheme (ETS). Offsetting border measures are also proposed in pending climate change legislation in the US Congress.
- *Tariffs and non-tariff barriers to trade, investment and technology transfer of climate-friendly goods and services.* Elimination of such tariffs on a list of manufactured goods was proposed jointly by the EU and US in late November 2007, a few days before the beginning of the Bali conference.
- *Policies that promote exports, foreign direct investments and technology transfers, especially to emerging economies.* Such policies have been imbedded, for instance, in US energy legislation.
- *International climate change technology cooperation agreements.* The Asia Pacific Partnership, for instance, includes on its agenda the reduction of barriers to trade and investment in renewable energy goods and services.
- *Climate-related and trade-related international conflict and domestic legal actions concerning the international aviation and maritime shipping industries.* These industry-specific issues have been put on the climate-trade agenda by US government's objections to the proposed inclusion of aviation in the EU ETS – and by domestic US legal actions by the state of California concerning the greenhouse gas emissions of the two industries.

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These developments mean that climate change policy-makers and negotiators of international climate change agreements, and their counterparts in trade policy, can no longer ignore one another. The 'Bali Roadmap' towards a post-2012 agreement creates a sense of urgency that these two policy-making communities need to cooperate more explicitly and extensively.

In both regimes, the UNFCCC for climate change and the WTO for trade, there is widespread recognition of the value of multilateral action. At the same time, both multilateral regimes have been supplemented by the proliferation of regional and bilateral agreements, which threaten to undermine the multilateral regimes. The Bali climate change negotiations have clearly highlighted the potential tensions between the UNFCCC process and other initiatives, notably the Major Economies' Meeting. It has shown that even if the multilateral institutions remain, there are nevertheless continuing centrifugal forces in both cases that run the danger of creating highly disparate and extraordinarily complex institutional arrangements involving many bilateral, regional and plurilateral arrangements as well as the core multilateral institutions. Such developments will not serve well either government officials who must administer the international rules or the business people who must conduct international business transactions.

A variety of negotiating challenges thus emerge for both the UNFCCC and WTO multilateral processes. Three such challenges stand out in their need for immediate attention:

1. The EU should strive to include deterrents to 'free riders' in the post-2012 climate regime, in order to defuse the growing concerns about the possibility of a plethora of unilaterally-developed offsetting border measures to address international competitiveness issues.
2. The EU-US list of 43 climate-friendly manufactured goods that have been proposed for the negotiation of zero-level tariffs in the Doha Round at the WTO should be expanded to include other climate-friendly goods and services that can be identified.
3. The EU should lead an effort to bring the international aviation and maritime shipping industries into both the multilateral climate and multilateral trade regimes. The fact that both industries are currently outside both multilateral regimes is an anomaly that should be addressed now.

These and other climate-trade issues are surely adding complications to the already complicated climate and trade negotiating agendas. But the tangible intersection of the two issue domains was inevitable, and these realities must be addressed. The EU has an opportunity to expand its leadership role by addressing the issues in constructive ways that will strengthen both the multilateral climate and trade regimes.