Trade Policy Tools and Instruments for Addressing Climate Change and Sustainable Development

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It is an honour to be here with you at this first meeting of trade ministers to deal with the issue of climate change

It is particularly timely that you should discuss this subject as we celebrate the twentieth anniversary of the publication of the report of the World Commission on Environment and Development, the so called Brundtland Commission. The Commission was Chaired by the former Norwegian Prime Minister, Gro Harlem Brundtland and it coined the term sustainable development. I am sorry to see that my old friend Professor Emil Salim, the Head of the Indonesian delegation, is not with us today. He was one of the most prominent members of the Commission.

The principal insight of the Brundtland Commission was that the world's environment and its economy are no so closely interlocked that policies in one area which ignore the other are bound for failure. For the Commission, environment became the main concern of Ministers of Finance and Trade. I am glad to see that is finally happening.

As such, this meeting makes eminent sense, and is timely. In specific terms, though, why are we here? What are the linkages?

For starters, if we fail to effectively address climate change, it will amount to a failure of the multilateral trading system as well. The objectives of that system, as laid out in the Agreement Establishing the WTO, and again in the Doha Ministerial Declaration, are to increase human well-being through economic growth, through trade liberalization, with a special focus on poverty alleviation and environmental sustainability.

We know now that climate change threatens economic growth and human well-being. Sir Nicolas Stern, in his groundbreaking economic analysis, notes that unchecked climate change results in a 20% loss of global GDP, and the Intergovernmental Panel on Climate Change reaches similar conclusions. Both of them note that the worst of the impacts will fall on the world's poor in developing countries – those who are unable to adapt to changing climatic conditions, and who depend most directly on a natural resource base. Both reports also note that addressing climate change proactively will be orders of magnitude more cost effective.

As well, we are here because trade policy has potential to support the achievement of climate change goals. This boils down to the nature of the UNFCCC and its Kyoto Protocol: these are on their face environmental treaties that seek to reduce greenhouse gas emissions, but at their base they are *economic* agreements. They require that we fundamentally change the way we produce and use energy, and the way goods and services are produced, delivered and used. They demand global investment in new clean technologies on a scale that is unprecedented. As the IPCC's Fourth Assessment Report points out, one of the key achievements of the Kyoto Protocol has been to set a value on carbon – a market signal that has driven billions of dollars of investment in clean energy and other technologies.

As such, it is appropriate to ask how trade ministers can contribute to climate change efforts. Unless those efforts are successful, the trade system cannot deliver on its fundamental goals.

The linkages that bind trade and climate change are many, and they are laid out in detail in the first background paper prepared for this meeting. It is important to set the context for those linkages by noting that both agreements contain language that can be read as striving for mutual supportiveness:

- The UNFCCC, in Article 3.5, states that, "Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade."
- The preamble of the Agreement Establishing the WTO recognizes that the relations among WTO members should be conducted with a view to achieving development objectives, "while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so ... ." The language of the Doha Declaration makes this even more explicit.

As you might expect, given these complementary objectives, we haven't yet seen any real conflicts between the two regimes. But as we look to a strengthened climate regime in the post-2012 context, and as countries strive to effectively implement their existing commitments in the current commitment period, we may well see such conflicts. This is not, however, inevitable. If we clearly understand how the two regimes interact, we can proactively avoid conflicts and, better—and this is important—we can make policy that explicitly tries to find those areas of synergy, that looks for win-win solutions.

It is probably most appropriate in this first meeting of Ministers on trade and climate change issues to focus on those areas of promise, rather than on conflicts, though any longer term dialogue obviously cannot avoid a broader discussion. The four main themes of that broader discussion are laid out in the first background paper prepared for this meeting:

1. Climate change can directly impact on trade by its impacts on transportation and other trade-related infrastructure, and by changing the comparative advantage that drives current trade flows. Think of port infrastructure being swamped by sea-level rise, or agricultural production becoming impossible in water-deprived regions.
2. Actions to deal with climate change, enacted at the national level, can have competitiveness impacts on domestic firms that will again alter global flows of goods and services.
3. There are legal linkages that explore how the two regimes of law interact. These linkages essentially boil down to the question: how can the climate regime accomplish its goals without trade law conflicts?
4. Finally, there is the class of linkages that starts with trade policy changes. How can trade policy impact on climate change, for better or for worse?

This last class of linkages will be our focus in these meetings. Specifically, we are asking how trade policy can best support climate-related goals. It can do so by doing what it does best: pursuing an open, non-discriminatory multilateral system of trade and investment, but doing so in a way that has specific climate change benefits. The second background paper lays out some of the most relevant options in this regard:

Liberalizing trade : agreement on low-carbon goods, and a focus on non-tariff barriers to clean energy investment

- These will not be simple tasks. As in the WTO talks, the key is in defining exactly which goods we will focus on. And non-tariff barriers, while they are arguably more important than tariff barriers, are also much tougher to address, as experience has shown.

Agreement to reduce trade-distorting fossil fuel subsidies

- Here again the task is not simple, but it is made more difficult by a lack of reliable up-to-date data. Solid data and analysis need to precede any efforts in this area.

Special rules on subsidies for environmental purposes

- Once again there is a need here for solid analysis. The former Article 8 formulation was not exactly well-used. Are there climate friendly subsidies—subsidies that would facilitate technology development and dissemination—that are in need of shelter from trade disciplines? How can we ensure that the result is not unfair protection of domestic sectors?

A focus on technology transfer, and IPRs

- This is a key issue, particularly for developing countries. Of course any efforts to revisit IPRs will need to respect the principle that we need incentives for developing new clean technologies. Here again there is a need for research to identify the potential avenues for trade policy to facilitate technology transfer.

Many of these initiatives, at the end of the day, aim to foster the kind of investment and technology transfer that will allow developing countries to pursue a clean development path, in line with their existing development priorities. Both the WTO and the UNFCCC recognize the importance of these goals, both having explicit language on fostering technology transfer, even if neither has to date been spectacularly successful.

The UNFCCC Secretariat has estimated that to achieve the mitigation goals of the Convention alone we will need additional global flows of investment and finance on the order of 200 – 210 billion per annum, as Yvo DeBoer noted in his remarks. Most of this will come from private investment flows. You can see in this slide that private investment dwarfs ODA in magnitude – a trend that continues to accelerate. How can we stimulate these flows, facilitate them, while guiding them in the right direction, toward a clean development path?

In the end climate change is not a problem for just environment ministers. It is the quintessential cross-cutting issue, and has enough urgency to compel all to ask how they can contribute. Trade policy has tangible opportunities to serve in the overall effort. I congratulate the Indonesian government and Minister Pangestu on their foresight in convening this first attempt to define exactly how it might do so, and I look forward with interest to our discussion over the next day and a half.