Trade has a role to play in climate action but unilateral barriers are unfair

livemint.com/opinion/online-views/trade-has-a-role-to-play-in-climate-action-but-unilateral-barriers-are-unfair-11701690619457.html

R.V. Anuradha | December 4, 2023

CoP-28 underway in Dubai puts, for the first time, a spotlight on the role of trade in addressing climate change. The core issue is not one of climate trumping trade or vice versa. It is one of equity, fairness and common sense. Climate change knows no borders and the only way to address it is through collaborative action. However, the journey of the 1992 UN Framework Convention on Climate Change (UNFCCC) has been one of unfulfilled promises, specially in relation to commitments for the transfer of financial resources and environmentally sound technology (EST), which the recent IPCC Sixth Assessment Report notes has led to lagging adoption of low-emission technologies in most developing countries.

Meanwhile, the stage has shifted increasingly towards unilateral trade measures adopted with the stated objective of addressing climate change. The UNFCCC underscores that any unilateral measure to combat climate change should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade. This principle mirrors that of the World Trade Organization (WTO), the underlying concern being that protectionism must not operate in the guise of climate action.

The implementation of emission reduction obligations has implications for the competitiveness of domestic industry. In response, the EU's green industrial policy has turned to regulatory action to support its own competitiveness, while the US is providing large subsidies to its home industries. Such approaches raise concerns under WTO rules and also represent uncoordinated action, which is unlikely to achieve climate goals. Importantly, they fail to address the main hurdle to green development faced by developing countries: lack of access to finance and EST.

Take the EU's Carbon Border Adjustment Mechanism (CBAM), which requires importers in select carbon-intensive sectors (including iron, steel and aluminium) to purchase CBAM certificates to ensure equivalence in the price that EU producers pay for their emissions with the aim of preserving their competitiveness. The World Bank and UNCTAD have highlighted that this could have a significant impact on the competitiveness of developing countries that export goods to the EU.

By demanding equivalence in carbon pricing, however, the EU strikes at the root of differential emission cut obligations, reflected as Nationally Determined Contributions (NDCs) under the Paris Agreement. Yet, the UK is likely to replicate the EU's CBAM; Australia too is mulling carbon leakage steps.

To stem this tide of carbon border measures, it is essential to arrive at emission-pricing principles that are aligned with the differential NDCs of countries. Trade levies at the border of an importing country must not impose its own carbon price on shipments from an exporting country that has a lower carbon price due to different NDCs and other operating factors.

Another interface of trade with climate change is trade in environmental goods and services (EGS), an area where several developed countries are seeking tariff liberalization on the reasoning that opening up such trade is a climate-friendly step. An UNCTAD report notes that the key exporters of EGS are the EU, US, Japan, UK, Singapore, Canada, South Korea, Switzerland and China, and developing countries are net importers. It further estimates that in 2019, tariff revenue collected on these goods by developing countries amounted to $15 billion. Clearly, it would be perfectly legitimate for developing countries to use tariff revenues from EGS imports as a source of climate finance. Any trade liberalization of EGS, on the contrary, will simply eliminate that source of tariff revenue while possibly enhancing market access for other countries.

The chief role of trade in addressing climate change is in enabling the diffusion of EST, as two recent WTO submissions have highlighted. This is more important than EGS trade liberalization. As the IPCC report notes, finance, technology and international cooperation are critical enablers for accelerated climate action. The key barriers to insufficient EST transfers are man-made: lack of political commitment, limited resources and widening gaps between available finance and estimated adaptation and mitigation costs.

The WTO will co-lead the ‘trade day’ discussions at CoP-28. It should steer them away from myopic EGS market access demands and the tweaking of trade rules to legitimize unilateral border measures. As noted by the World Trade Report, 2022, climate change can impact international trade by affecting trade costs, altering comparative advantages and disrupting global value chains. Both CoP-28 and the upcoming WTO Ministerial to be hosted by the UAE in February 2024 should ensure (a) unilateral trade steps do not undermine the balance of rights and obligations under the UNFCCC and Paris Agreement, (b) an implementable plan for the transfer of EST, (c) smooth access to finance for enhancing climate resilience, (d) assistance to developing countries in research and adaptation of green technologies, and (e) global agreement on carbon pricing consistent with NDCs.