

## Tackling the challenges to trade

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The Copenhagen Summit in December will discuss the replacement for the Kyoto Protocol. Whatever comes out of Copenhagen will likely involve more states following more stringent rules designed to mitigate the environmental damage from global warming. Copenhagen will have a direct impact on trade policy. Three inter-linked challenges face us in tackling the relationship between climate change and trade.

First, the impact of climate change is not evenly distributed across states.

The poorest people and the poorest countries may end up suffering the most. Developing regions are already warmer, on average, than the developed world. They rely heavily on agriculture. Changes to the climate that negatively affect the ability of farmers in the developing world to grow crops will have many trade-related impacts.

Second, the contribution of each state to the problem is different. Hence, any post-Kyoto regime will have different rules for different categories of states.

But these distinctions may give rise to potentially unfair outcomes. For instance, there may be an environmental 'race to the bottom' as firms relocate to states with relatively lax policies. To offset this trade advantage, many states are planning a range of interventions for climate-related trade businesses, including subsidies.

Finally, the ability to develop, deploy and pay for mitigation strategies varies across states.

Take, for example, the prospect of more extreme weather events. Some states will simply be unable to prepare adequately for such calamities as floods or droughts. Others will be overwhelmed by events when they occur.

Three other issues should also be considered in discussing the nexus between climate change and international trade. First, some observers have suggested that climate change disputes could be handled by the World Trade Organisation (WTO). After all, the WTO has the best mechanisms already in place for addressing disputes. Since many of the disputes will have trade implications, the WTO might be well-positioned to resolve many of these state-to-state disagreements.

Yet the attempt to do so might well overwhelm the WTO system. Its dispute settlement mechanism may be overloaded precisely because member states and customs territories recognise that it is effective and will result in legally enforceable decisions. Some new mechanism will need to be created to resolve climate change disputes.

A second area of concern is that climate change negotiations are increasingly being led by trade negotiators. There is a risk that mercantilist approaches and an insistence on package deals may take hold in Copenhagen. If we export the concept that 'nothing is agreed until everything is agreed' - a staple of WTO negotiation - we will set the stage for failure in Copenhagen.

Most governments have traditionally regarded attention to climate change as imposing a cost on economies and an impediment to economic growth. With the global economy heading into recession, governments will increasingly focus on immediate threats rather

than those that appear over the horizon. The ability to reach significant binding agreements in Copenhagen may be threatened by the current gloomy global economic outlook.

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