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**“TRADE POLICY NEXUS WITH CLIMATE CHANGE AND SUSTAINABLE
DEVELOPMENT FOR THE ASIA PACIFIC REGION”**

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Ladies and Gentlemen,

Welcome to this dialogue on climate change and trade policy.

Those of us in the trade policy community have mostly paid limited attention to the issues of climate change. We may have followed the debates as individuals and taken steps to reduce our carbon footprints—replacing light fixtures with energy efficient bulbs, changing the temperature settings in our homes or office, or increasing our commitment to recycling and reusing materials. But we have only recently been devoting sustained attention to how climate change mitigation strategies might impact our “day” jobs in trade.

The International Centre for Trade and Sustainable Development (ICTSD) and the Temasek Foundation Centre for Trade and Negotiations (TFCTN) have convened this dialogue to start a serious exchange of views between individuals in the Asian trade world with experts on climate change. This dialogue is the first of a planned series of three events scheduled for 2009 here in Singapore.

The Copenhagen Summit in December will discuss the replacement for the Kyoto Protocol. Whatever comes out of Copenhagen will likely involve significantly more states following more stringent rules designed to mitigate the environmental damage from global warming and climate change.

These discussions in Copenhagen will have a direct impact on trade policy. International trade will help define the parameters of that discussion. Climate change and trade need to be considered in tandem.

There are many reasons for my trade colleagues to begin paying attention to our climate specialists. Let me suggest a few of the areas we might usefully consider as the debate moves forward. A global issue like climate change will require global solutions.

The biggest problems in tackling the climate change and trade nexus rise from three interlinked challenges. First, the impact of climate change is not evenly distributed across states. Second, the contribution of each state to the problem is different with some states contributing more greenhouse gases and some less. Finally, the ability to invest in mitigation strategies varies across states.

Each of these challenges will play out in the trade realm. Let me discuss these issues in a bit more detail.

Because the impact of climate change is uneven, 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, but must deal with a high variability in rainfall totals. Changes to the climate that negatively affect the ability of farmers in the developing world to grow crops will have many economic and trade related impacts.

Second, since each state contributes different levels of carbon emissions and other sources of climate change, any regime to address the impact will have different rules for different categories of states. These distinctions give rise to potentially unfair outcomes.

Some of the trade implications include a possible environmental “race to the bottom” as firms relocate to states with more lax responsibilities. Firms that face fewer constraints on pollution emissions can set lower prices for goods than those subject to higher costs. To offset this trade advantage, many states are planning a range of state interventions for climate-related trade businesses, including subsidies and direct support. Some states have obvious barriers to the transfer of mitigation technologies, including high tariff walls. Investment regimes, environmental regulations, intellectual property rights protections or laws regarding energy usage can be crafted to offset perceived unfair trade advantages or to provide a boost to domestic firms.

Under any sort of expanded carbon trading scheme, the issue of competitiveness will be front and centre. Border carbon adjustment schemes will likely vary by country, at least at the outset. We have not yet thought through the implications of different designs. We may need to adjust or revise existing trade rules in the WTO or free trade agreements to account for these kinds of new regulations.

Third, the ability of states to develop, deploy and pay for mitigation strategies varies enormously. 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.

Environmental technologies come with their own sets of problems. The most work done to date has been at the level on how to identify these technologies. What is a “green” good or service? Is it one with an environmental end use? One produced using methods sensitive to the environment, like organic produce? Or something intrinsic in the good or service itself, like hybrid car technologies? How about something that is not normally seen as environmentally friendly, but designed to be used or incorporated into a specific green project? Handling dual use technologies is even more complex.

The very classification of items into environmental goods and services (EGS) categories has not been straightforward. Even if we get these problems straightened out, we have a new set of practical problems in the trade realm, as most of our schemes of handling goods and services imports and exports like SIC coding are not suitable for accommodating these environmental categories. Instead, products are lumped together in ways that makes it difficult to untangle green goods from non-green goods and so forth.

The classification systems for goods and services matters for global trade as well because various states have particular tariff or non-tariff barriers that affect imports and exports. For example, many states might prefer to have special lower barriers for items that are for specific inclusion in their CDM (Clean Development Mechanism) projects. However, states are currently prohibited from discriminating in tariff treatment in this way. These are just a few of the issues for consideration by trade policy experts.

I will close with three other issues for consideration by my trade colleagues. I have heard various suggestions that perhaps climate change disputes could be handled by the World Trade Organization. After all, it 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. There is a significant risk today that the WTO dispute settlement mechanism may be over-loaded 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 resolving disagreements in climate change disputes.

Secondly, climate change negotiations are increasingly being led by trade negotiators who cut their spurs at the WTO. There is a risk of mercantilist mindsets and the search for a package deal in Copenhagen. If we export the concept that “nothing is agreed until everything is agreed”, a staple of GATT/WTO negotiations, we are setting the stage for failure in Copenhagen.

This brings me to my final point. While climate change has been getting attention for nearly 20 years, the connection between climate change and trade is only now being recognised. Most trade ministries traditionally regarded attention to climate change as imposing a cost to economies and an impediment to a focus on economic growth. So far, there has been limited academic or policy work on the relationship between climate change and trade. The lack of institutions is particularly problematic in dealing with cross-cutting cases of market failure like climate change and global warming.

This dialogue, then, represents a good start at considering many of these issues. We must start conversations between our environmental policy experts and those in trade. As the global economy moves 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 therefore be threatened by the new global economic environment.

Thank you.

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