

KEYNOTE ADDRESS
OECD GLOBAL FORUM ON TRADE AND CLIMATE CHANGE
DOAA ABDEL MOTAAL

The question I have been asked to respond to today is ***“How Can Trade Policy Support Climate Policy”?***

I believe that to respond to this question, one must begin by defining the linkages between trade and climate change. There are three broad categories of interlinkage that I see:

- The issue of the carbon footprint of the international trading system, and whether trade policy can somehow help reduce that footprint
- The issue of carbon leakage and of competitiveness effects, and whether trade policy can somehow be used to curtail these effects:
 - This is an issue of particular interest to “first movers” on climate – countries that perceive themselves to be amongst the first to act on climate change, and who would like to see their competitiveness safeguarded, and carbon leakage prevented
 - It is also an issue, in my view, which is likely to remain with us after an international treaty comes into place, since any international treaty would still be likely to lead to *uneven carbon constraints* at the global level because of the principle of *common but differentiated responsibility*. So this is not an issue that will go away
- The relationship between the WTO rule-book, the Doha Round, and climate negotiations, and whether the rule-book and the Round can make a positive contribution to climate adaptation and mitigation. In my view, there is tremendous scope for a positive trade agenda on climate, a point that I will come to at the end of my presentation

Carbon Footprint

- This is an issue that this forum will be dealing *in extenso*
- While there is no doubt that internalizing the negative environmental externalities associated with trade is a laudable objective, and one that must be pursued, it needs to be done carefully
- I believe that it would be useful for this Forum to know that some of the WTO’s poorest Members have looked at this issue with alarm, because it received one its very first expressions in the area of agriculture – in the form of “food miles”
- Now agriculture as you all know is a sector of great comparative advantage for many of the world’s poor, and just as they had thought they were approaching an outcome in the Doha Round

that would settle historical injustices (by reducing rich world subsidies and finally levelling the playing field) they have found themselves under siege through food miles campaigns

- My own comment on food miles and carbon footprint is as follows:
 - The carbon footprint of products should be examined through Life-Cycle Analysis, and not focus exclusively on transportation. Various studies have shown that transportation, looked at in isolation, can distort the picture. They have demonstrated that products that travel long distances can often outcompete products that are produced at home (in terms of a lower footprint) because of more energy efficient processes of production. In agriculture these differences are particularly stark because of the use of greenhouses in the North to make food available across all seasons
 - However, even if we were to focus exclusively on transportation, then we would need to bear in mind that 90% of internationally traded goods are moved through maritime transport, one of the lowest carbon-emitting forms of transportation
 - In addition, if you look at a map, you will easily see that international trade can reduce the distances travelled by products, as opposed to increasing them, in particular between countries with shared borders. I think of my country Egypt, and the agricultural trade between Southern Egypt and Northern Sudan. Similarly I think of trade between the Northern United States and Canada
 - Finally, I believe that to do justice to the environmental issues surrounding international trade, we must not only account for negative environmental externalities, but have a responsibility to account for positive ones too. I often wonder why the term ‘water miles’ has not yet been coined. Does international trade not lead to water-savings? We would need in my view to juxtapose carbon miles against water miles, for a proper assessment, and properly take a whole host of other issues into consideration too. I note that just this year Saudi Arabia has called off its experiment at self-sufficiency in wheat because of the heavy toll that this was taking on its water resources. Imports were water-saving for Saudi Arabia
- As a final word on this issue, I would say that if "bunker fuels" do indeed become part of the post-Kyoto regime then that may already go a long way towards internalizing the negative externality in question. But I will leave this issue here, since I know that it is a sensitive negotiating subject in the run-up to Copenhagen

Carbon Leakage and Competitiveness Effects

- Can trade policy help alleviate carbon leakage and the competitiveness effects of climate action? What is feared in carbon leakage is essentially the relocation of polluting activity from carbon-constrained to non-constrained economies
- Of course the competitiveness discussion is a complex one. What a *country* defines as a loss of competitiveness, a *company* may view as a gain. I.e while the relocation of a company abroad is generally regarded by countries as a loss to their competitiveness, industries often choose to relocate precisely so as to enhance their competitiveness
- I would point out that WTO rules are there to afford fair and equal *opportunities for competitiveness* to all Members of WTO. They are there to create fair conditions under which

countries can trade, and of course that fairness will be enhanced further through the Doha Round. But WTO rules are not there to ensure that a particular company, industry, sector or country stays in business. Once a level international playing field has been created it then becomes incumbent upon every company and country to prove its competitiveness in the market-place

- I say this because I fear that, in our attempts to address competitiveness effects, we may slip into making industrial policy and not climate policy if we are not careful. The greatest contribution that the WTO can make to climate discussions in my view is to weed out protectionist measures from genuine environmental measures. I.e. to help safeguard the integrity of the environmental goal
- Now in so far as trade measures are put in place to address carbon leakage (and not competitiveness) – with carbon leakage being an environmental goal – then we would need to ask a host of WTO-related and non-WTO related questions.
 - First, I would point out that in the WTO as you all know there is tremendous scope for the pursuit of environmental goals
 - If a trade measure were to be put in place to combat carbon leakage, then the WTO would look at the compliance of the measure with the specific legal instrument of the WTO under which it would fall (for example, Border Tax Adjustment and its compliance with the principles of the GATT, or the Subsidies Agreement). We would look at the type of measure, its design and its implementation, depending on the particular aspect of the measure that is challenged
 - However, I believe that the international community would need to ask itself a host of non-WTO related questions too. Prime amongst them is whether a trade measure can indeed prevent leakage. Can it? Do importing countries have the leverage that they think they do over the behaviour of exporting countries? What do their import profiles look like, are they heavy importers of energy-intensive products? Also, is it always true that importing countries contemplating such measures are more energy efficient in all sectors than the countries they import from? Various studies show that recent industrializers are using the best available technology and are sometimes more energy efficient than the countries to which they export in certain sectors
 - Now, I have said that these questions are non-WTO related. But they may become WTO-related in so far as they help the WTO assess the overall integrity of the environmental goal that a country is pursuing
- I must confess though that I have always found it surprising that discussions on carbon leakage only focus on leakage that some think can be addressed through trade. What about the other kind of leakage that can occur, which is possibly much more serious, and which is not discussed as often? And by this I mean the fact that carbon-constrained economies will ultimately consume less oil over time, causing the international price of oil to drop. This will give non-constrained economies incentives to increase their consumption of oil. So how will you deal with this leakage?
- It is for this reason, but due to the many other issues I cited above, that I firmly believe that an international climate treaty remains the best option before the international community at this stage. It would go a long way towards levelling the international carbon playing field, and help

alleviate leakage and competitiveness concerns. It is the first-best policy option that we must all pursue

- I would hasten to add that trade measures that follow from an international accord obtain a very different reception from trade measures that precede them. Following the adoption of the Montreal Protocol on Ozone Depleting Substances, some countries (which I will not name, but perhaps you know who you are in this room) put Border Tax Adjustment measures in place. But these measures went by unnoticed, we have not heard of them in the WTO. Now, this is not an encouragement for you to pursue BTA after Copenhagen by any means! I am simply saying that an international accord that delivers a sense of justice on a transboundary and global environmental problem can go a long way towards alleviating concerns on trade measures as well

The WTO Rule-Book and the Doha Round

- I believe that the very spirit on which the WTO was founded will itself help climate negotiations; it will prevent protectionism, forcing a focus on the real environmental goal
- I have always thought that the “non-discrimination” principle should be considered an environmental principle too. Does the atmosphere care about the nationality of an extra unit of CO₂? Does not each and every unit pollute irrespective of its source?
- The Doha Round has much to contribute to climate adaptation and mitigation too
- As you all know the Round is seeking to open markets in environmental goods and services, and to make these technologies more accessible to all. Some climate-friendly technology has been proposed that could contribute to adaptation and mitigation
- We also have tariff negotiations in the Doha Round that would reduce tariffs on renewable energy, like biofuels. I am not saying that the international community should not be setting standards for these fuels, perhaps it should, I leave that to the experts. However, tariff reduction would no doubt allow these fuels to move to where they can most efficiently be produced (reducing, for example, their competition with food)
- The Doha Round agricultural subsidy negotiations will also reduce the overall intensity (including energy intensity) of agricultural production in some parts of the globe
- This is all part of a positive agenda in my view between trade and climate change
- Having said that I was struck by IEA reports on the very specific and concrete contribution that trade opening can make to functioning of some parts of the climate treaty, like the Clean Development Mechanism
- The IEA has shown in one of its reports that obstacles to the ability of some developing countries to attract CDM projects include: tariffs on clean technology (which would come down through the Doha Round); bureaucratic customs procedures that prevent the quick clearance of imported goods used in CDM projects (that would be addressed through the Doha Round’s trade facilitation negotiation); and energy subsidies (which can already be addressed through WTO rules on subsidies, whether under the Subsidies Agreement or the Agreement on Agriculture, both of which will be strengthened through the Doha Round)