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SG/SD/RT/A(2009)2



Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

English - Or. English

GENERAL SECRETARIAT

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Round Table on Sustainable Development

COMPETITIVENESS, LEAKAGE AND BORDER ADJUSTMENT: CLIMATE POLICY DISTRACTIONS?

AGENDA

**for the 23rd meeting
to be held 22-23 July 2009
at The Regent Hotel, Singapore**

English - Or. English

23RD ROUND TABLE ON SUSTAINABLE DEVELOPMENT
COMPETITIVENESS, LEAKAGE, AND BORDER ADJUSTMENT:
CLIMATE POLICY DISTRACTIONS?

AGENDA

The Regent Hotel
Singapore
22-23 July 2009

22 July The Regent Boardroom

19:00 Aperitif
19:30 Dinner
21:00 After-dinner speaker and discussion

23 July The Regent Royal Pavilion

09:00 23rd Meeting of the Round Table on Sustainable Development (questions attached)
10:30 Coffee break
13-14:00 Buffet luncheon

QUESTIONS FOR DISCUSSION

In this meeting the Round Table will address the question: are demands for taxing emissions at the border simply a climate policy distraction or are they symptomatic of a persistent policy problem that needs to be addressed by the international community?

To address this question the underlying issues need to be debated – whether and how concerns about competitiveness and leakage should be addressed.

Behind public demands for a tax on emissions at the border are concerns that businesses in developed economies will be placed at a costly, competitive disadvantage. These concerns have the potential to delay, significantly dilute and even de-rail steps to curb greenhouse gas (GHG) emissions.

Competitiveness concerns are palpable political problems even if they are of indeterminate economic and environmental importance. The history of trade negotiations suggests that whatever the merits of policy reform, domestic politics has required a slower and more costly road than theory would recommend. It is unlikely that climate control will prove any different, particularly in the face of far more ambitious emissions reductions than have been discussed to date. In trade, implicit recognition is given to matters of reform but governments are left largely on their own to develop reform strategies. Should the same be true of climate policy?

1. *Are competitiveness concerns and leakage simply “domestic implementation problems” or should the international community recognise their importance?*

Competitiveness concerns are made more challenging for policy makers by emissions “leakage”. If a firm loses business to foreign competitors or moves offshore, policies put in place may not reduce emissions and emissions could even increase. As a result, the effectiveness of climate policy could be called into question, at least in part.

The United Nations Framework Convention on Climate Change accepts that countries will adopt different policies and take on varying responsibilities in the pursuit of avoiding dangerous climate change. There will be some shifting in the distribution of emissions and in comparative advantages in production and trade. Arithmetically this would be leakage, but in and of itself it is not an unintended consequence. However, it could undermine action to control climate change, especially if it raises the cost of reducing emissions.

2. *Is leakage a threat to effective international action on climate policy or a natural consequence of different responsibilities to control climate change?*

Whether or not there is mutual recognition of the problems of competitiveness and leakage, unilateral policies will surface and resurface to deal with them. These may be at or behind the border. Measures that operate *behind* the border, such as free allocations of emissions permits to at-risk industries, have less obvious impacts on trade than border measures, but are not neutral in their effects and may be considered subsidies. Measures *at* the border, such as taxing or rebating carbon costs, are more obviously trade-related.

3. *Should behind-the-border measures be favoured over taxing or rebating carbon costs at the border?*

Any attempts to control leakage and stave off hard-to-separate competitiveness concerns will create costs and risk initiating trade-related disputes. These costs and risks need to be minimised if avoiding them is not a realistic option.

4. *Would an international understanding help minimise risks and costs from unilateral policies to address competitiveness and leakage? What would such an understanding look like? Or would existing world trade rules and norms be sufficient for disciplining unilateral policies?*