

Summary Remarks

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STRENGTHENING TRANSATLANTIC COOPERATION

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This is a summary of an event for which seven papers were published in August 2008. Those papers are: *Clean Energy Investment*; *Trade and Climate Change: Issues in Perspective*; *Climate Change, Technology Transfer and Intellectual Property Rights*; *Liberalization of Trade in Environmental Goods for Climate Change Mitigation: The Sustainable Development Context*; *Embodied Carbon in Traded Goods*; *Border Carbon Adjustment*; and *Standards, Labelling and Certification*.

I should begin by thanking our hosts, the Danish Ministry of Foreign Affairs, and the hardworking staff from the Ministry that have made this event possible. I think they have done yeoman's work in pulling together such an interesting set of discussions on a range of topics that all in their own way break new ground. A job well done.

We've been brought together here in the first instance because of the urgency of global climate change. Climate change and its twin, energy policy, are likely to be the most intractable economic issues facing the world for first few decades of this century. The reasons for this are becoming more and more apparent. The last report of the Intergovernmental Panel on Climate Change, the winner of the Nobel Peace Prize, confirms that global warming is taking place and that it is virtually certain that it is caused by human activities. And it urges governments to take immediate action. Other clarion calls have followed, from the Secretary-General of the United Nations, from the EU, from non-governmental organizations and even from leaders of countries long considered holdouts against an active climate change agenda.

Each passing day seems to bring increased urgency to the task at hand. For a number of years, it was assumed that 550 parts per million of CO₂ in the atmosphere represented an acceptable target for the stabilization of emissions. But that would likely represent a global average temperature increase in the region of 3°C, which the IPCC indicates would be very dangerous in terms of species loss, sea level rise and the increased possibility of the occurrence of non linear events. The European Union has therefore concluded that any concentration which results in an average temperature rise of more than 2°C is dangerous. That translates to a concentration in the atmosphere of 450 ppm.

This is no easy target. Earlier this year, Shell, the international oil company, issued an update to its energy scenarios. Shell is a world leader in developing these views of the future. Shell believes that the world will be extremely hard pressed to stabilize at 550 ppm by 2050.

And now Dr. James Hanson of NASA, one of the most respected climate scientists as well as one of the most courageous, has called for a target of 350 ppm if we are to avoid a number of irreversible tipping points including massive sea level rise and huge changes in rainfall patterns. This is no mean feat, given that we are already at 380, with no signs of slowing down. So the need for action is immediate. The actions we take during the next 5 to 10 years will determine the future of the world's climate.

It's worth stressing that acting now and acting effectively does not mean economic ruin. A study by Lord Nicholas Stern, the former Chief Economist of the World Bank and of the British Government, put the cost of dealing with climate change at approximately one percent of world GDP annually, a figure that is probably on the high side. This is not an insignificant sum; it is far more than we are currently spending on development aid, and mobilizing it will not be simple. But the alternative is instructive; Lord Stern calculates that *not* taking action could result in a drop of up to 20 percent of global GDP because of the effects of climate change (most of which would be felt in developing countries).

Further evidence of the possible existence of a light at the end of the tunnel has come from a recent McKinsey study, which estimates that the world would need to produce \$7,300 of gross domestic product (GDP) for every tonne of carbon dioxide emitted by 2050, up from a carbon productivity rate of \$740 now: "Increasing carbon productivity tenfold in less than 50 years will be one of the greatest tests humankind has ever faced. But both history and economics give us confidence it can be done." Most technologies are already available—ranging from better building insulation to cleaner coal generation—to cut world emissions of greenhouse gases by 64 percent by 2050, or to 20 billion tonnes a year from 55 billion in 2008.

The study estimated that the costs of a "carbon revolution" were likely to be "manageable," at about 0.6 to 1.4 percent of global GDP by 2030, figures comparable to those produced by the Stern Report. Substantial amounts could be raised by borrowing, muting any impact on growth. But the McKinsey study warned that the pace of change would have to be faster than during the Industrial Revolution. It noted that labour pro-

ductivity rose tenfold in the United States between 1830 and 1955, and cautioned: “The tenfold increase in labour productivity was achieved over 125 years; the carbon revolution needs to be achieved in only 42.”

Although it is obvious that climate change is a global challenge, it is not obvious at first blush why *trade* policy makers should concern themselves with that challenge, the aims of trade being, after all, economic growth rather than environmental protection. The answer is that trade policy is not only about economic growth. The Ministerial Declaration that launched the Doha Agenda “strongly reaffirmed” the members’ commitment to the objective of sustainable development. And it argued that the goals of the multilateral trading system, and acting for the protection of the environment and the promotion of sustainable development, “can and must be mutually supportive.” The same sort of language is in the Agreement Establishing the WTO.

Why is this sort of language in the trade texts? It is there because trade’s ability to foster growth and increase wellbeing depends fundamentally on a healthy environment. And not just because climate change will play havoc with trade related infrastructure such as ports, and with costs of transportation. If the Stern Report is right about the losses to be suffered from a lack of action, and if goals of the trading system are raising living standards and increasing human well being, then climate change must be of fundamental concern to trade policy makers. It will be impossible to deliver on those goals in the context of unchecked climate change; all the gains from decades of hard-fought trade reform could be too easily wiped away.

Let us also remember that, politically, reducing carbon emissions while continuing to produce economic growth is the only arrangement which can be viable over the long term. As Tony Blair argued in a report for the Carbon Project, carbon reduction and economic growth must go hand in hand. So we must redefine and restructure economic growth.

Finally, many of the solutions to the problem of climate change impact heavily on trade and investment flows, involving fundamental economic restructuring of the world’s systems of energy production, of transportation, of manufacturing, of resource extraction and harvesting. Or they involve invoking or amending trade measures in pursuit of climate change objectives. Like it or not, addressing climate change will affect the trade policy community, and trade policy makers need to understand in advance what the linkages are, to try to ensure that they are positive for both climate change and trade objectives.

In reality the trade and climate change agenda is, much like the broader trade and environment agenda, a rough assortment of issues with different dynamics and different sorts of solutions. There are a number of potential synergies between the trade and climate change regimes. There are a number of potential conflicts as well. And there are some entirely new concepts that we simply need to explore more deeply, to understand better how they might be either synergies or conflicts.

Despite these compelling arguments, few trade experts have concerned themselves with climate change until very recently. With all of these considerations in mind, the Indonesian Government convened a meeting of Trade Ministers on the fringes of the recent climate change meetings in Bali. Until now, climate negotiations have largely been in the hands of Environment Ministers. And Environment Ministers, for the most part, are not significant figures in their own Cabinets. Climate and energy policy has now moved to the center of the economic debates of our time. It will need to sit on the agendas of Ministers of Finance and the Boards of Directors of major companies for many more years to come. The Bali meeting was a start for Trade Ministers, who treated the issue with hostility at times, with curiosity and with some desire to keep it on their agendas for future meetings. They will need to keep it front and center if we are to have any hope of devising mutually reinforcing trade and climate change policies.

The Danish Government has had the foresight to take an interest in these issues as well, and the meetings it has convened over the last two days, and the rich discussions they have spawned, have been the welcome result. I think the success of this meeting is at least in part a testimony to the value of bringing different

communities together—trade people and climate change people tend to cluster together, each group speaking its own language, and it is very fertile ground where you bring groups like that together. I am not going to try to summarize the discussions here. Rather, I'll try to offer a few thoughts on the progress we've made overall.

The first obvious lesson from these meetings is that there is indeed a promising slate of issues where trade community can contribute to both its own objectives and also those of the climate change community. We heard about the potential in areas such as liberalization of low-carbon goods, in the area of subsidy reform, of investment for clean energy, and in the area of standards and labelling. What remains in all these areas, as well as the obvious need for greater clarity on benefits and pitfalls, is to try to fit the clear potential for good into a complex reality that includes an ailing round of multilateral trade talks, an advanced and Byzantine process of climate negotiations, diverse national interests and a convoluted institutional mix of jurisdictions and responsibilities.

We also saw areas in which the reality seemed to be somewhat less than the promise. Here I think of the limitations that were identified for IPR reform as a contribution to climate change objectives, the lesson seeming to be that IPRs may matter, but they are not in and of themselves a silver bullet. And I think of the limited number of promising avenues that seemed to be opened up by the paradigm of embedded carbon, useful though that concept may be in other ways, such as demonstrating the extent to which rich country consumption is responsible for developing country emissions.

And of course we noted areas in which the trade and climate change regimes need to tread carefully, with a full understanding of the implications of the various policy options. Here I think of our discussions on border carbon adjustment, which were some of the most energetic of any over these two days. What sorts of impacts might these sorts of measures have, in terms of achieving their primary goals, and in terms of achieving the wider goals of international climate change cooperation?

One of the clearest areas of need is a research platform that is sensitive to more than just environmental dimensions of these problems, and more than just the economic. There are important development dimensions to all these problems as well. What does it mean to developing country exporters, and to the prospects for poverty reduction in the exporting countries, if we adopt one or the other definition of environmental goods? Many developing countries have enormous comparative advantage at producing organic foodstuffs for export, but it's not likely that their proposals to have these listed as environmental goods will finally be accepted. What does it mean for developing countries to have border carbon adjustment imposed on their exports? Is this a major disaster, or a minor inconvenience? These are questions that go to the heart of sustainable development, of the need to marry environmental, economic and development dimensions in a holistic pursuit that is the heart of IISD's work. And they take us back again to the basic goals of the trade regime and the climate regime, both of which are aimed explicitly at sustainable development.

In the end, it's clear that there is a great deal of potential for trade policy to help us advance the climate change goals that are so important. And there is a great need to more clearly understand and avoid solutions that could damage both the trade regime and the climate regime. It's encouraging to know that there is no shortage of work ahead of us.