

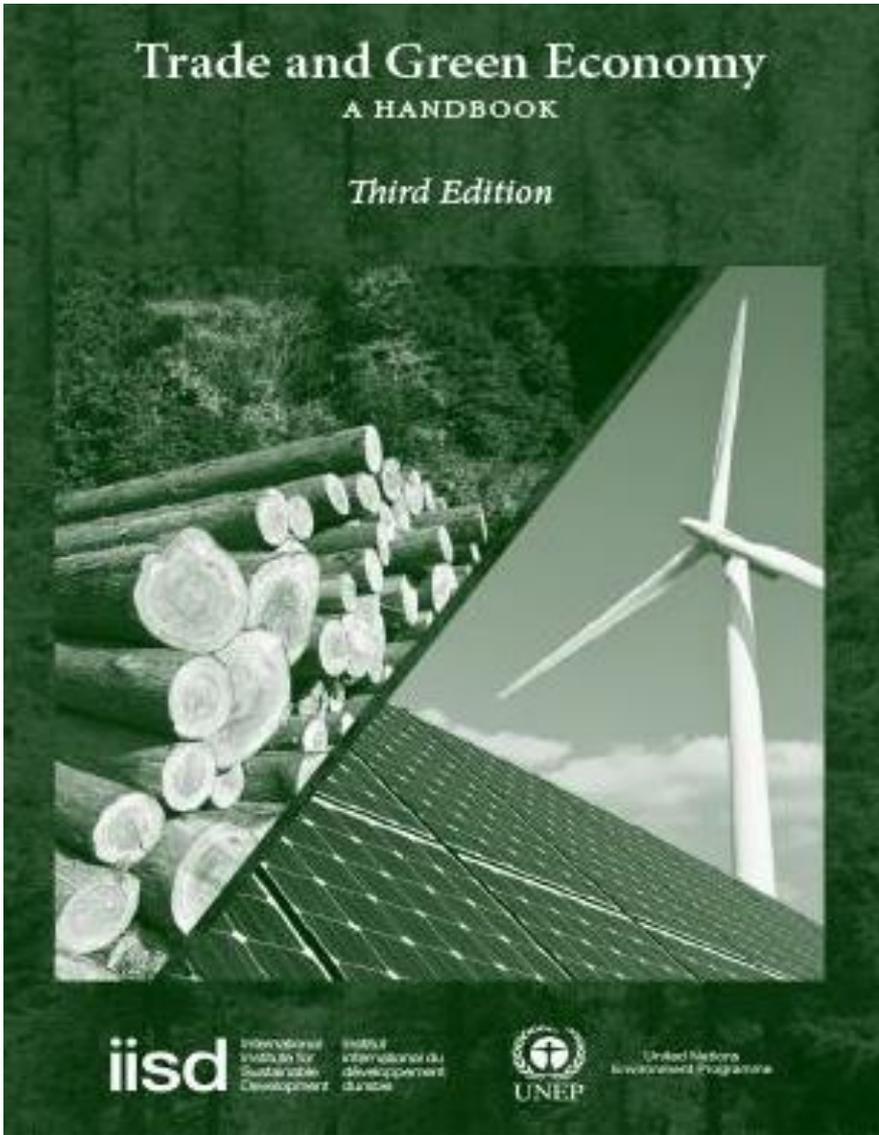
Opportunities for coherence and co-benefits between trade and climate change

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Report

The cost of carbon pricing: competitiveness implications for the mining and metals industry



3 policies with a major potential impact on GHG emissions – *and a role for trade*

1. Fossil fuel subsidy reform

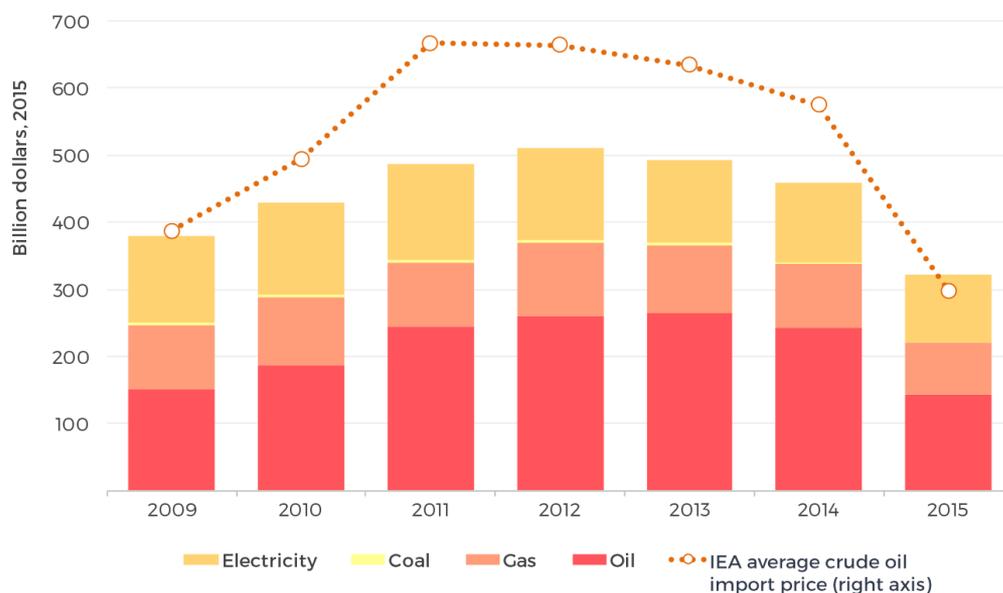
2. Standards, labelling & government procurement

3. Supporting the low carbon transition

Consumer subsidies (\$325 billion in 2015, IEA data) by energy type

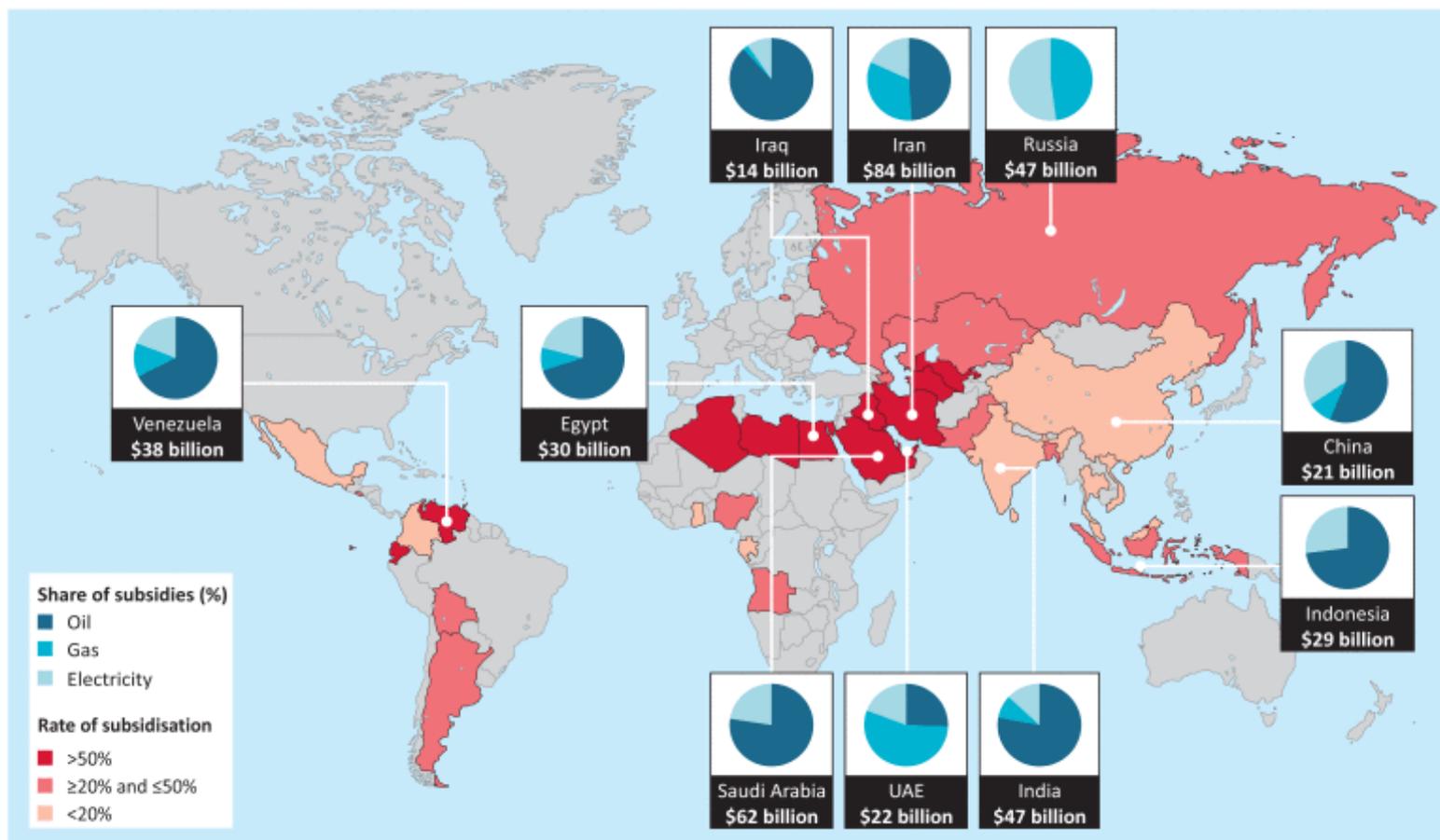
Categories of consumers: private sector, public sector, households

Economic value of global fossil-fuel consumption subsidies by energy source



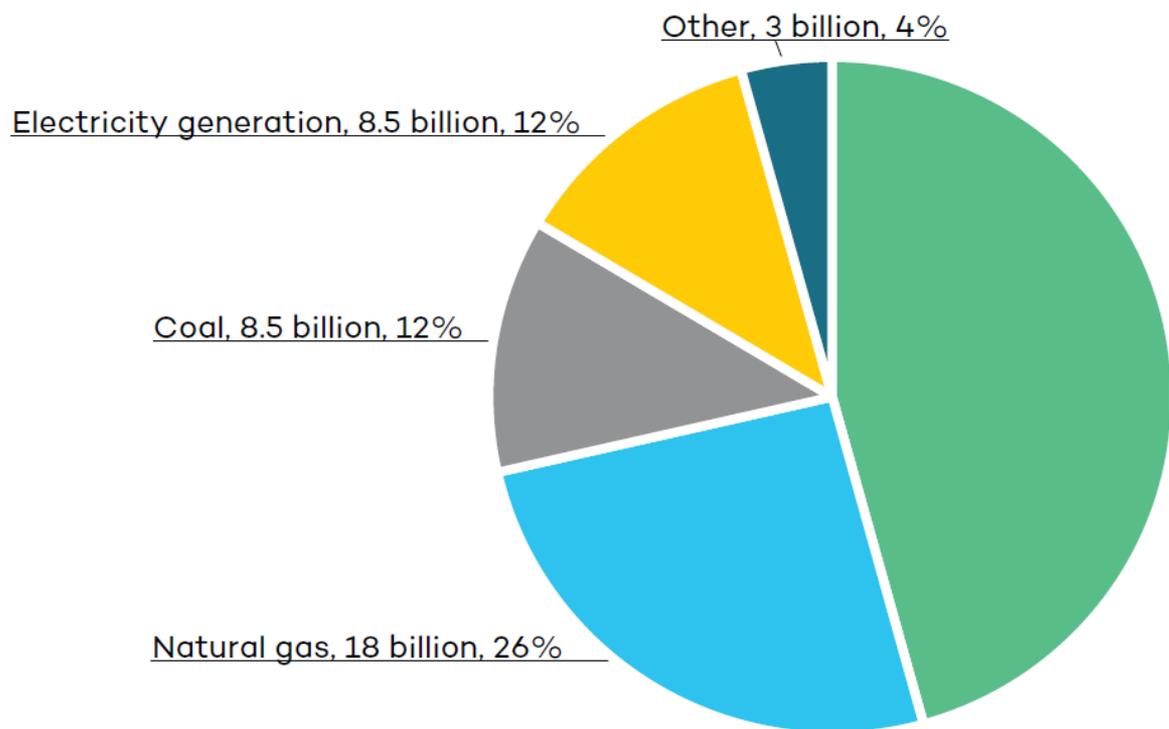
- IEA=most-quoted source
- 40 developing & emerging economies
- IEA data, assumptions
- IEA definition ('subsidies change prices')
- Opaque calculations
- Benchmarks based on global fuel market prices
- Non-application of 'normal' tax a subsidy
- Reform: 6-8%+ GHGs ↓

Consumer subsidies (at their highest in 2013, IEA data) by country



This map is without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries, and to the name of any territory, city or area.

Producer subsidies (\$70 billion on annual average in G20 countries) by energy type



- Basis: OECD inventory of support measures
- OECD + BRICSAM
- Producer & consumer
- Inventory of individual policies & measures
- Definition ~ ASCM
- Data only from govt. sources (→ conservative)
- Semi-official? (OECD members can object)
- >\$100bn globally (GSI)
- Reform: 2-3%+ GHGs ↓

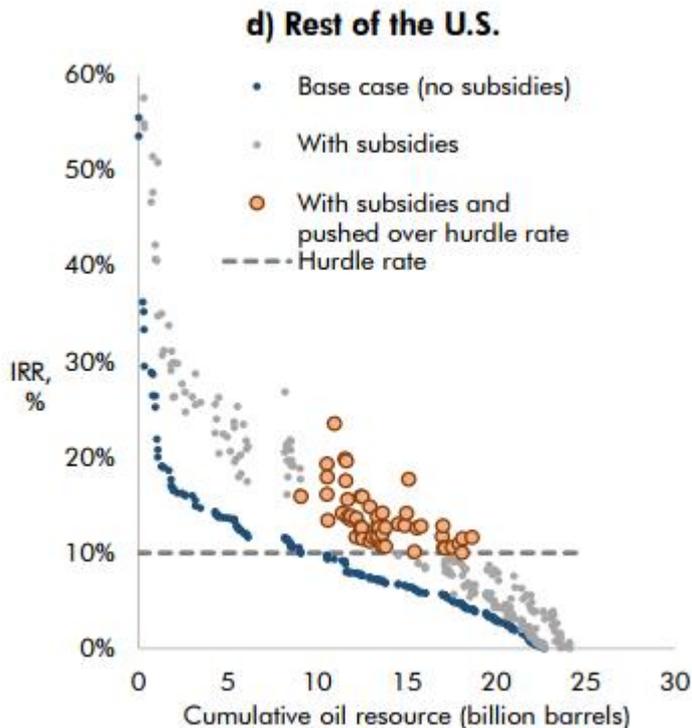
Subsidies to fossil-fuel consumption: what trade effects?



- Markets that are affected range from nitrogenous **fertilisers** (made from natural gas), to **petrochemicals**, to refined metals, such as **aluminium**.
- Less talked about are the effects of fossil-fuel consumption subsidies on **markets for renewable energy**, for electrified transport, and for goods and services related to improving **energy efficiency**.
- Although many of the subsidies benefit transport fuels (which affect markets for **electrified buses and trams**, for example), some also reduce prices for fossil-fuel based electricity, which makes it difficult for **solar or wind-based power** to compete.
- These effects are amplified by the **generally higher import tariffs charged on renewable-energy** technologies than on petroleum products, natural gas or coal.

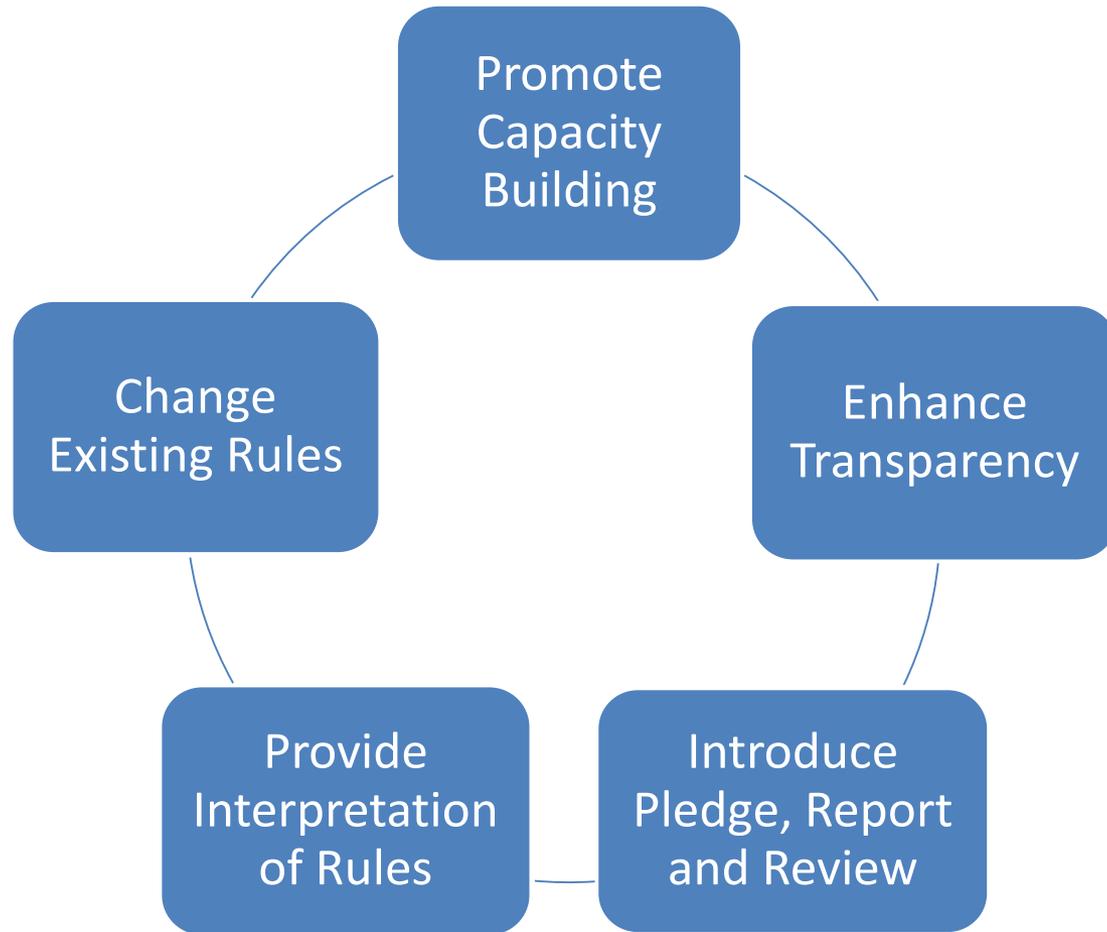


Subsidies to FF production: what trade effects?



- Analysts are only starting to examine the trade effects of subsidies to FF production.
- Domestically, some of the subsidies may simply be **enriching existing producers**, but not materially changing their output levels.
- Others, however, may be affecting the **rate and timing of development of new fields**.
- According to a study by the SEI, “at recent oil prices of \$50 per barrel, subsidies push nearly half of yet-to-be-developed oil into profitability, potentially increasing U.S. oil production by almost 20 billion barrels over the next few decades.”

Five Ways to Address Fossil Fuel Subsidies at the WTO*



Standards and labelling

Savings and benefits of global regulations for energy efficient products

A 'cost of non-world' study

Final report



- Climate Change Mitigation benefits = **7-15% of total global BAU (business as usual) GHG emissions** (various scenarios)
- Currently, product policy-settings are only weakly internationally aligned, with some notable exceptions (e.g. Energy Star for IT)
- *Win-win*: standards harmonization increases trade flows, makes it easier for exporters to penetrate foreign markets

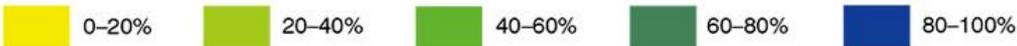
Government procurement

- Procurement typically 45-65% of government expenditure
 - 13-17% of GDP in OECD countries
 - Higher in many developing countries, especially if state-owned enterprises are included
 - Can set practice and standards for wider market
- Agreement on Government Procurement (Plurilateral: 18 Members + EU)
 - Not extended beyond signatories; focus on fair tendering
 - *Within GPA, WTO rules don't act as a barrier to green procurement (UNEP/IISD Handbook, 3rd Edition)*
 - Article 68(1)(b) of the **Directive 2014/24/EU on life-cycle costing**
 - relevant costs can also be "**cost imputed to environmental externalities**" linked to a product, service, or work during its life cycle, provided the monetary value can be determined and verified

Supporting the low carbon transition: External costs to air are largely not captured



Percent of GHG emissions covered



Supporting the low carbon transition: EGA (precedent+?), Clean Energy Subsidies?



Progress made on Environmental Goods Agreement, setting stage for further talks

4 DECEMBER 2016

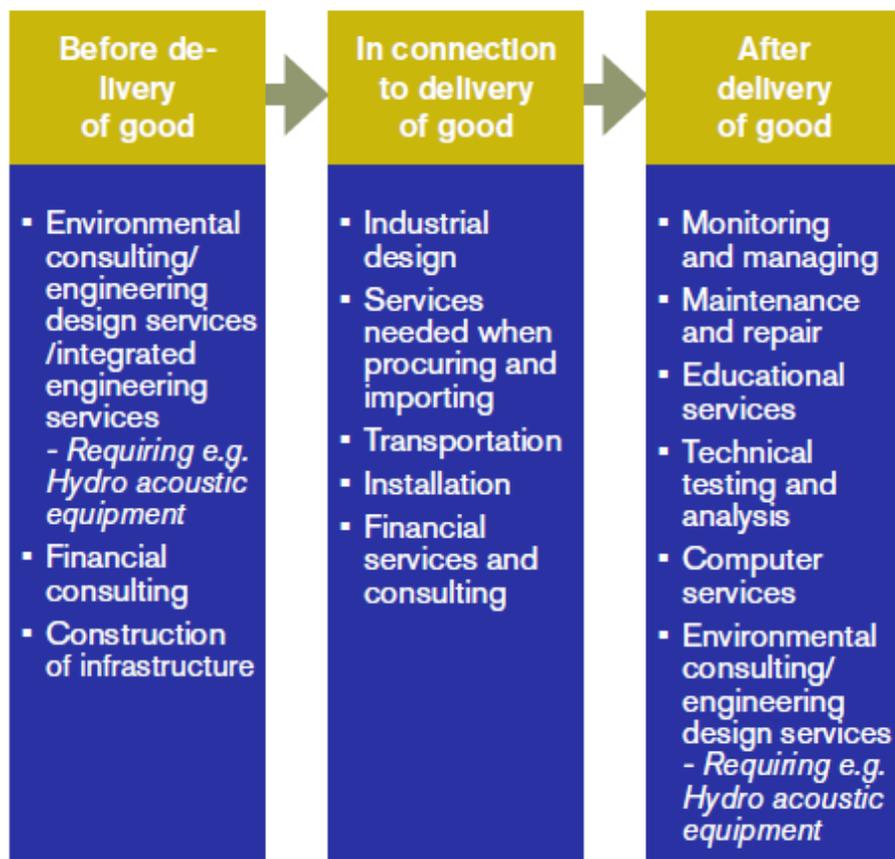
Ministers and senior officials from the 18 participants in the Environmental Goods Agreement (repres...



- Clean energy subsidies justifiable as a second-best solution → list of non-actionable subsidies
- Allow support to local Renewable Energy Manufacturing
- Traffic light system?

Supporting the low carbon transition: Extension of trade in (green) services

Figure 2. Services in an off-shore wind farm process chain in Sweden



Swedish National Board of Trade, 2014

- Manufacturing firms becoming more and more dependent upon services → to stay competitive
- Synergistic relationship between goods & services → treat together
- Mode 3 (commercial presence), Mode 4 (movement of natural persons) are key

OECD Trade & Env. WP 2017/02

- Division 94 of UN CPC → too narrow
- Environmentally-related services:
 - Constrained in many countries
 - Need better data (home & abroad)

Making Green Trade Happen

– Environmental Goods and Indispensable Services

Supporting the low carbon transition: the challenge of energy & intensive sectors

The Energy Sector and Energy-Intensive Industry are major GHG emitters – common challenges globally

- Governments across the world are concerned by **competitiveness**, and by **leakage** if they impose relatively stringent environmental policies
- Key sectors of concern typically: Steel, Chemicals, Cement, Non-Ferrous Metals, Paper & Pulp; and Electricity Generation (cost)
- Energy and energy-intensive industries are **large point sources of employment**, sometimes in remote or deprived areas
- They can also be major contributors to tax revenues, and may hold significant political power or symbolism
- **Step-change innovation needs wide cooperation?**