



# Bridges Trade BioRes

*Biweekly news, events and resources at the intersection of trade and environment*

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## READER SURVEY

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## RENEWABLE ENERGY

### Is the US Losing the Clean Energy Race?

Recent cases on clean energy brought to the WTO by Japan and to the USTR by North America's biggest labor union have shown again that the clean energy race is accelerating (see Bridges Trade BioRes, [15 September 2010](#) and this issue).

Venture capitalists and clean energy experts told a US Congressional hearing on Wednesday that several Asian countries in addition to China could soon challenge the United States in the race to build a renewable energy industry if Washington doesn't provide more incentives for its domestic business.

The United States, once the world's leader in energy innovation, is now also "challenged and threatened" by India, South Korea, Malaysia and the Philippines, because it is not providing enough incentives to fund the development of alternative energy and to increase demand, Ravi Viswanathan, a partner at New Enterprise Associates told the hearing chaired by U.S. Representative Ed Markey.

"These nations have outpaced the US in recruiting, incenting and developing domestic

manufacturing of solar, wind, and battery technology," he said.

Earlier this month, the accounting firm Ernst & Young named China the most attractive place to invest in renewables, knocking the United States out of the top position.

The study ranked countries on such criteria as regulatory risk, access to finance, grid connection and tax climate. It cited the lack of a clear policy promoting demand for renewables in the United States - a product of Congress' failure to pass an energy bill - as one of the main factors for the dethroning.

China has already surpassed the United States in the amount of wind turbines and solar panels that it makes. China is also gaining on the United States in terms of what proportion of domestically consumed energy comes from renewable sources.

### **Cash is pouring in**

The report "Who's Winning The Clean Energy Race?," released from the Pew Charitable Trusts, shows that the US is already being outpaced by other G20 countries in renewable energy investment. Although the US is seen as a leader in risk-taking and innovation, other countries like Germany, the UK, China, and Brazil are investing more money in clean energy relative to the size of their economies.

Since 2005, there has been a 230 percent increase in capital flow to the industry. Throughout that time period the US has lead the pack with the most installed capacity and the most total yearly investment – until 2009 when China took the lead.

In the second quarter of 2010, China attracted more clean-tech asset financing than Europe and the US combined, according to data compiled by Bloomberg New Energy Finance.

Whereas investment in clean energy in China from not only the Chinese government and banks, but also from Western private equity funds and individual investors jumped by 50 percent (from US\$23.1 billion to US\$32 billion). American investment in renewable energy fell by 42 percent

to US\$18.6 billion over the same period due to recessionary pressure.

US Senate failed to pass a climate bill this year which would have put a price on carbon emissions, so it must pass laws that would create demand for alternative energy or fall further behind, experts told the Congressional panel this week.

Senator Jeff Bingaman introduced a bill this week that would require utilities to generate minimum amounts of alternative energy through a federal Renewable Electricity Standard, or RES, but the legislation faces an uncertain future.

Many states in the U.S. have developed their own renewable power mandates, but in most cases these do not have enforcement measures nor penalties to ensure that they are financed.

"What we're seeing in the US is a continued resistance to committing to long-term visible and transparent support for the sector," says Ben Warren, Ernst & Young's environment and energy infrastructure advisory leader. "The US market has always suffered from this boom and bust tax-based incentive regime."

A political move in California to stop the state's ambitious program on emissions discourages investors from deploying capital into alternative energy and does not really contribute to a stable climate for investment in clean energy.

### **Jobs growth only for China?**

In wind power, China-based companies are on track to make 39 percent of the turbines sold worldwide in 2010, according to New Energy Finance; US-based companies will make just 12 percent. In solar, China-based firms will make 43 percent of photovoltaic panels, while US firms will make 9 percent.

"Countries that make the most investments will create the most jobs," says Chris Lafakis, an economist at Moody's Analytics, an economic consultancy. "It's important to invest in this sector because the jobs of tomorrow will be created here," Lafakis says.

The overall "green economy" remains quite small, but it's growing rapidly - three times as fast as the overall economy.

Even if the majority of China's clean energy products continue to be manufactured in China, millions of clean energy jobs will be created in the US as well in order to feed its own demand. Many clean energy products - such as wind turbines - are large, heavy, fragile, and difficult to ship globally. Indeed, transportation and logistics costs add 10 to 25 percent to the price of wind turbines. For this reason, it generally more cost effective to manufacture wind turbines where the market is located, rather than halfway around the world.

Furthermore, it is worth noting that the majority of clean energy jobs are in installation and maintenance, rather than the manufacturing sector.

### The way forward

While China has surpassed the United States in terms of manufacturing equipment, it has not yet caught it in terms of innovation and renewable energy production.

In 2009, China could produce 25 gigawatts of wind power and under 1 gigawatt of solar, according to Ernst & Young. The United States could produce 35 gigawatts of wind and 2 gigawatts of solar. China isn't expected to produce more renewable power than the United States until sometime between 2020 and 2025, according to EIA.

Utility chief executive officers such as Lew Hay of NextEra Energy, Ralph Izzo of PSEG, and Jim Rogers of Duke Energy have all said they are ready to invest in clean energy just as soon as Congress establishes a carbon cap that creates a clear, steady price signal for dirty fuel—in effect, pricing in some of the social costs of carbon pollution that have never been part of America's energy bill.

Tom Carbone, the chief executive at Nordic Windpower says the US could make progress if it passed a national RES, extend recovery act grant programs that will expire at the end of the year,

and streamline the Department of Energy's loan guarantee programs for small businesses.

Germany, Japan, and China have dedicated funds to develop domestic alternative energy technologies, but the United States has only just begun this effort, the experts told the Congressional panel.

### More information

The Pew Charitable Trusts' "Who's Winning The Clean Energy Race?" can be accessed [here](#).

ICTSD Reporting; Biz Leaders: Prop 23 Could Stall Renewable Energy Investments," ENVIRONMENTAL LEADER, 26 July 2010; "America Sits Out the Race," BLOOMBERG, 29 July 2010; "Is the US Losing the Clean Energy Race?," RENEWABLE ENERGY WORLD, 2 April 2010; "China winning renewable energy race," CNN, 23 September 2010; "U.S. Seen Losing Renewable Energy Race To Asia," REUTERS, 23 September 2010.

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## Japan Challenges Canadian Renewable Energy Incentives at WTO

Japan launched dispute settlement proceedings against Canada at the World Trade Organization on 13 September by saying that the province of Ontario's green energy plan unfairly pressures its producers of clean power to buy hardware from local manufacturers.

Specifically, Japan is challenging Ontario's Feed-in Tariff Program (FIT), which enables the province to subsidise electricity operators that use renewable energy produced using stringent local content requirements. The "made-in-Ontario" requirement demands that up to 60 percent of all green energy project inputs be manufactured in the province as it strives to create local jobs.

Ontario, Canada's most populous province, launched an incentive program for renewable energy producers last October, aiming to create jobs and eliminate coal-fired power generators. The program has so far been very successful in

drawing manufacturers to set up shop in Ontario. The biggest deal under the province's green power plan involved South Korean giant Samsung Group. But many other equipment makers - based in Europe, the US and other parts of Canada - have said they will open plants in Ontario to take advantage of the buying binge which is expected under the green energy plan.

### **Ontario subsidies breach GATT, national treatment: Tokyo**

But Japan says the local-content provisions breach portions of the General Agreement on Tariffs and Trade (GATT), and fall under the definition of a "prohibited subsidy." It has asked for "consultations" with Canada under the WTO process, the first stage of a formal trade dispute.

The local content requirements, Japan argued, accords less favourable treatment to Japanese companies exporting solar panels and other equipment to the province. Thus, the FIT program also violates WTO national treatment obligations under which foreign and domestic producers ought to be treated on an equal footing. It also goes against the WTO agreement on trade-related investment measures, Japan said.

The view of the Canadian provincial and federal governments is "that Ontario's Green Energy Act is consistent with Canada's international trade obligations under the WTO."

Some experts think it will be challenging for Japan to show that what Ontario has done is contrary to WTO rules. In some cases, local-content rules are frowned upon by the WTO, they say, but in others they are permitted.

Local content requirements for Renewable Energy Equipment are nothing new, with China implementing a 70 percent requirement between 2005 and 2009 for wind turbines. However China could justify this on its developing country status, while Ontario has little grounds for this mandate.

One key issue in this case is whether the purchase of renewable power is considered to be government procurement. GATT rules allow for preference to be given to local producers for government purchases, unless a government

specifically agrees that it will not give local preference.

The dispute could end up as a long and drawn-out process, partly because Japan is obliged to negotiate with Canada's federal government, not Ontario. And the federal government has no jurisdiction to force the hand of one of its provinces in this way.

### **Experts point to green energy rivalry**

Other experts say they think it is puzzling that Japan has decided to make its move now. Ontario's neighbouring province Quebec has had a local-procurement program for years for its energy development, they note, including rules that force power producers to buy equipment from specific regions inside the province. The Quebec policy has never drawn complaints from the Japanese, the source says.

Some observers have speculated that Japan is targeting Ontario in the wake of a \$7 billion contract given to Korean competitor Samsung by the Ontario government. Recently, Japanese companies - such as Sharp, Mitsubishi, and Kyocera - were on the losing end of a US\$20 billion nuclear power deal in the United Arab Emirates. The Ontario deal could be perceived by Japan as a sign of losing ground in the green energy arena, some experts say.

Under the agreement with Samsung, Ontario will provide the company with subsidies to establish a massive solar and wind energy capacity in the province. The government will support the company by providing preferential grid access, financial assistance, and land. The deal has been a boon to Samsung, which is vying to position itself as a major renewable energy player. Samsung, as part of the deal, will also establish a wind turbine facility and solar power production facility in Ontario.

If Japan eventually wins its claim, it could be a blow for Ontario's alternative energy plans. The prices the province pays for green energy - for certain types of solar power it is almost 20 times the rate customers pay - can only be financially justified if Ontario gets significant employment benefits from new development.

ICTSD Reporting; “Japan takes issue with Ontario’s green energy plan,” THE GLOBE AND MAIL, 13 September 2010; “Japan starts WTO dispute with Canada on clean power,” REUTERS, 13 September; “The Real Reason Behind Japan’s WTO Challenge of Ontario’s Green Energy Subsidy Local Content Requirements,” GREEN WORLD INVESTOR, 14 September 2010.

## SUSTAINABLE AGRICULTURE

### RSPO Delivers a Blow to Controversial Palm Producer

Environmental groups received welcome support yesterday in their battle against what they believe are the unsustainable practices of one of the world’s largest palm oil producers. The Roundtable for Sustainable Palm Oil (RSPO) publicly censured member company Sinar Mas Agro Resources and Technology (SMART), accusing it of “serious non-compliance” with the industry body’s environmental guidelines.

The RSPO has been criticised in the past for failing to speak out against charges from the environmental community and this is the first time the body has taken a member to task for failing to comply with the terms of membership.

Pressure from green groups, most notably Greenpeace, has prompted major international companies – including Unilever, Nestle, Kraft, and Burger King – to cancel contracts with the Indonesian producer over the past year.

#### RSPO supports Greenpeace on audit findings

In an effort to stem the tide of negative press, SMART engaged the services of PR agency Bell Pottinger and commissioned an independent audit by UK-based British Standard Institution (BSI) and Netherlands-based Control Union Certification (CUC) to specifically address allegations made by Greenpeace.

When the results of the audit were released in August 2010, SMART insisted that the findings

confirmed that the Greenpeace allegations were false. “The report...showed that SMART operates responsibly and within the laws and regulations set out by the Indonesian government,” reads a statement by SMART. “The report concluded that the allegations made were largely unfounded and that SMART was not responsible for deforestation of primary forests and the destruction of orang-utan habitats as had been claimed.”

However, Greenpeace challenged the palm-producer’s interpretation of the audit, suggesting the company was attempting to spin the findings in their favour.

“The audit confirms that Sinar Mas has been clearing forests and peatland, but rather than acknowledging this Sinar Mas is trying to hide the audit through a greenwash exercise,” Greenpeace said. “Even as Sinar Mas was completing this audit, it was continuing to clear mapped forests and peatland in breach of its own company policy.”

The Wall Street Journal reports that BSI later confirmed that certain aspects of its audit were misreported and that SMART had indeed established plantations on environmentally-sensitive “deep peat” in two instances.

#### Could face “termination”

Prior to yesterday’s announcement, the RSPO had been mum on the audit since its release on 10 August, leaving many observers wondering how the body stood on the issue. But in its statement, the organisation was clear that SMART would need to change its business practices or risk losing its RSPO certification.

“The Roundtable on Sustainable Palm Oil takes all infringements of its Code of Conduct and Principles and Criteria very seriously,” reads a statement on the RSPO website. “Members who have been found to not be in compliance and who continue to be in non-compliance with the RSPO regulations could ultimately face sanctions, including the suspension and, eventually, the termination of their membership of the RSPO.”

The RSPO Grievance Panel said the charges of non-compliance relate to infringements related to legal compliance, social and environmental impact assessment, conservation values, peat conservation and community engagement on issues related to land and social impacts.

In order for SMART to comply with the terms set out by the RSPO, the company must submit a time-bound plan to address non-compliance issues, provide assurance that all production units comply with approved planting procedures, agree to develop an acceptable package of measures for land clearing, and provide evidence that all failings identified in the BSI-CUC Independent Verification Exercise (IVEX).

If SMART loses its certification, it is likely to be dropped by several more purchasers as environmental groups turn up the pressure on corporations.

### Parent company's practices questioned

The RSPO also weighed in on a separate accusation by Greenpeace that SMART's parent company, Singapore-based Golden Agri-Resources (GAR) had been falsely claiming to be RSPO certified.

"GAR should not publicly suggest that it is in the process of obtaining RSPO certification of all its operating units, nor should the company publicly claim that it plans to become an RSPO member," reads the RSPO statement. "GAR is not a member of the RSPO, nor has the RSPO yet received a membership application from the company. The Panel encourages GAR to submit a full and complete application for membership and it has specified to the company which documentation RSPO would need in order to review the application, including a sufficiently challenging time-bound plan for certification."

RSPO says its grievance panel has written to SMART and GAR about the breaches identified by the auditors. While these letters were not officially released to the public, Greenpeace claims to have accessed copies that were inadvertently placed on the RSPO website. The green group has now posted these purportedly genuine letters on [its website](#).

More than 28 million tonnes of palm oil are produced around the world each year - almost one third of the world's vegetable oil production - and Indonesia is the world's largest producer. Only three percent of world's palm oil is RSPO certified.

According to RSPO, areas undergoing palm oil cultivation have grown by about 43 percent over the past two decades. Most of this new growth has occurred in Malaysia and Indonesia. The two countries account for nearly 90 percent of palm oil production world-wide.

### More information

The full BSI-CUC audit is available [here](#).

ICTSD Reporting, "Eco-friendly palm oil initiative censures company linked to deforestation," MONGBAY, 23 September 2010; "Sinar Mas threatened with expulsion," Financial Times, 23 September 2010; "Indonesia's palm oil giant faces industry sanction," AFP, 23 September 2010; "Palm Oil Body Rebukes Indonesia's Smart on Sustainability Claims," Wall Street Journal, 23 September 2010.

## TRADE AND DEVELOPMENT

### Doha Deal, Aid for Trade will Help World Meet MDGs: WTO Chief

Concluding a Doha Round agreement and increasing aid for trade are the contributions the WTO can make to ongoing global efforts to reduce the problems afflicting the world's poor, Director-General Pascal Lamy told world leaders at the UN Millennium Development Goals Summit in New York this week.

The purpose of the high-level meeting is to assess progress towards the MDGs, a set of eight objectives for 2015 adopted ten years ago by UN members to reduce poverty, hunger, and disease; increase access to health, education, and jobs; and promote environmental sustainability and global cooperation in support of development.



Environmental issues were low on the agenda of most attending the Summit.

The achievements over the past decade have been real, but uneven. The goal of halving the number of people living on less than US\$1.25 a day is within reach, but driven largely by China and other Asian countries. On the other hand, detailed analysis has shown that broad pessimism about Africa's progress on the MDGs is unwarranted. One [report](#) showed that Ethiopia had made dramatic progress on reducing extreme poverty and increasing primary enrolment, and that even Angola and Niger had made meaningful progress on reducing under-five mortality. [Another](#) demonstrates that that countries not generally thought of as developmental miracles, such as Honduras, Kyrgyz Republic, Laos, Nepal, Burkina Faso, Bolivia, Nicaragua, Ghana, Malawi, Mongolia, and Uganda had been MDG 'trailblazers' that had made substantial progress towards meeting the objectives.

As the world emerges from a deep and widespread economic crisis, Lamy said in his 20 September address, "we should be asking ourselves: How has the World Trade Organization contributed to achieving the Millennium Goals?"

The WTO chief noted that poverty reduction was strongly correlated with countries' trade volumes and their integration into the trading system. He contended that the multilateral trading system and its monitoring of WTO members' trade policies had served as a bulwark against immiserating protectionism during the recent crisis. "It is because international trade remained open that it is now a leading force in the recovery," he added, citing recent WTO estimates that the volume of global trade should grow by 13.5 per cent this year, 11 per cent for developed countries and 17 per cent for developing countries.

MDG 8, "developing a global partnership for development," calls for an "open, rules based, predictable and non discriminatory trading and financial system." Lamy said that "ensur[ing] a level playing field for all its Members, big or small, rich or poor... ensuring a 'pro-development' trading environment" was at the very heart of the WTO's raison d'être.

"Positive as the multilateral trading system's contribution to poverty reduction may have been," Lamy said, "we can and must do better." This, he said, would be accomplished by a rapid conclusion of the long-running Doha Round negotiations. A global trade accord would, he said, generate new growth opportunities, but also bolster multilateralism in general.

Lamy called for duty- and quota-free market access for exports from least-developed countries (LDCs), along with serious moves to address cotton subsidies - both issues have been priorities for some of the WTO's poorest members in the Doha Round talks. He also urged countries to maintain their efforts on aid for trade, saying that "helping poor countries to develop their productive capacities and to participate in international trade today is about enabling them to move forward more quickly on the path of growth tomorrow."

#### **ADB chief: Export-led growth model is dead**

Meanwhile, the head of the Asian Development Bank said that the export-led growth model that has underpinned unprecedented poverty reduction in East Asia will no longer be a vehicle for breakneck growth.

[Speaking to Reuters](#) on the sidelines of the summit in New York, ADB President Haruhiko Kuroda said that as US and European consumers shore up household balance sheets that were damaged during the financial crisis, they will no longer be in a position to purchase large quantities of Asian exports.

"Asian countries should pursue another development model based on domestic demand and regional demand, rather than external demand," Kuroda told Reuters.

Kuroda singled out China, saying that while smaller economies might be able to expand exports without upsetting global trade balances, this was "simply impossible" for China. "For the Chinese economy, rebalancing the source of growth from external demand to domestic sources is absolutely necessary," he said. Kuroda said that allowing the exchange rate to appreciate could

help smooth the expansion of China's domestic sector at the expense of its export sector. (See related story, this issue).

### **In Geneva, WTO ambassadors still identifying differences**

Despite Lamy's insistence about its importance for global development, the Doha Round has largely been at an impasse since 2008, when high-profile talks broke down despite coming closer than ever to an agreement.

Since May, WTO members have been meeting in a variety of formats in an effort to find ways forward in the negotiations: bilateral meetings, groups of different sizes, and multilateral settings. [Early meetings](#) left many participants "dumbfounded" by the depth of the gaps separating central players such as the US and large developing countries like Brazil, China, and India. But by July, Lamy [said](#) that what he dubbed the "cocktail approach" had yielded emergent "signs of a new dynamic" in the deadlocked talks.

Senior trade diplomats report that a group of 15 to 20 WTO ambassadors held informal gatherings in July and September (the precise composition varied depending on the issue being discussed). One said that the meetings were useful "given the overall situation," since they afforded ambassadors an opportunity to discuss issues other than the agriculture and industrial goods talks that have dominated centre stage. Leaving issues to specialists without political supervision for too long can allow positions to become needlessly entrenched over technical minutiae, the official explained. "Fresh eyes can ask 'how important is this?'" the source said. "If the technical official can't explain to his ambassador why something is important, it probably isn't."

The engagement among ambassadors was simply about "getting a common understanding of the gaps," added the official, who spoke to Bridges on condition of anonymity. "The problem is that this does not substitute for the big thing - the fact that there is no sign of progress on the main sticking point in the talks."

This sticking point, in the official's view, was "the attitude of one country - the US - which thinks it can reopen the negotiations and get all sorts of new concessions without giving up anything in return."

Sources say that the talks have addressed issues including LDC concerns, fisheries subsidies, rules, dispute settlement, services, agriculture, non-agricultural market access, and the trade and environment negotiations.

A more hopeful view came from another delegate, who suggested that the ambassadorial talks could clarify potential tradeoffs and ultimately set the stage for real negotiations "when the time is right." The process meant that "we're spending our time in a meaningful way" in the run-up to the November congressional elections in the US - before which few believe any significant movement on trade is likely.

One long-time trade hand suggested to Bridges that negotiators were in "bicycle mode": "they keep pedalling, just to prevent it from falling over."

Optimists believe that late 2010 and early 2011 may provide a small window of opportunity for a long-delayed breakthrough in the Doha Round.

ICTSD reporting; "INTERVIEW-Export-led growth no longer open for Asia - ADB head," REUTERS, 21 September 2010.

## **OPINION**

### **International Transport, Climate Change, and Trade**

By Joachim Monkelbaan

International transport, both aviation and maritime shipping, is a critical element of the global economy and trade: more than 90 percent of world trade is transported by sea and aviation supports eight percent of global economic activity, transporting 40 percent the total freight value. However, international transport is also one of the



main drivers of human-induced climate change. Maritime shipping emissions accounts for three percent of global anthropogenic carbon emissions while four to nine percent of the climate change impact of human activities is caused by aviation.

Regulation of greenhouse gas emissions from the international transport sector is needed to reduce global emissions; however, regulation often translates to higher costs of moving people, resources and goods around the globe. Developing countries situated in remote locations and with a large trade exposure, such as some Small Island Developing States (SIDS), would be particularly affected by higher transport costs. On the other hand, regulating emissions from maritime and air transport could potentially generate resources to finance climate change adaptation and mitigation measures in developing countries. A global climate policy that includes international maritime and air transport could thus offer opportunities for developing countries.

Despite these potential benefits, inclusion of international transport emissions in a global climate policy framework has proven to be difficult primarily because the responsibility for reducing emissions does not fall directly within the jurisdiction of any single country. Due to the global nature of the industry, sectoral approaches may be more appropriate for tackling emissions reduction in international transport. While maritime shipping and aviation are often lumped into the umbrella sector of international transport, they are distinct industries and should be considered separately. For example, the aviation industry is concentrated into a handful of major companies, has the greatest climate impact of any transport mode (on a per kilometre basis), and has limited potential for fuel efficiency gains. In contrast, the maritime shipping industry has more competition, transports a larger proportion of goods, has and has greater potential for improving fuel efficiency.

Given that aviation or maritime emissions reductions are not addressed in the Copenhagen Accord, there is uncertainty regarding how to proceed and under which forum. The Kyoto Protocol calls on Annex I Parties (developed countries) to work on international transport through the International Civil Aviation

Organization (ICAO) and the International Maritime Organization (IMO). However, while there are many proposals on the table, there is no clear mandate from either ICAO or IMO regarding an emissions reduction strategy. Instead, the industry faces the encroaching risk that a patchwork of domestic policies will emerge as individual countries or regions implement their own measures to deal with emissions.

Of the many challenges facing the industry in regards to emission reductions is reconciling the IMO's specific principle of "no favourable treatment" (i.e., all ships are regulated equally regardless of where the ship is owned or registered) and the fundamental ICAO principle of non-discrimination with the UNFCCC's principle of "common but differentiated responsibilities" (CBDR). Developing countries are reluctant to agree to reduce emissions under the IMO or ICAO for fear that the precedent would apply to climate negotiations in other fields. Additionally, agreeing to a sectoral approach to reducing international transport emissions, does not ensure that the CBDR principle is upheld under the IMO or ICAO, despite the UNFCCC's stipulation that sectoral approaches meet the incremental costs incurred by developing country Parties participating in such schemes.

Despite the climate change governance challenges that maritime shipping and aviation face, many regulatory options have been proposed, each with distinct economic impacts. For aviation, the regulatory options are straightforward: either technology standards or emissions trading schemes. In 2012, the EU's Emission Trading Scheme's (ETS) measures will be applied to all airlines regardless of the country of origin. This will provide the foundations for a potentially wider, global emissions trading scheme for airlines.

For maritime shipping there are currently two main types of policy for GHG reduction considered by the IMO: market-based instruments (MBIs) and efficiency requirements. MBIs include emissions trading schemes, fuel levies, energy efficiency credit trading schemes, and "cap-levy-and-trade" or "hybrid" schemes. The EU is in favour of a global sectoral cap-and-trade scheme – the proposed Maritime Emissions Trading

Scheme (METS). Others suggest that a fuel levy, or carbon charge, on bunker fuels would incentivise energy efficiency improvements.

The US has proposed an energy efficiency credit trading scheme that would encourage application of certified technologies and/or operational measures. A hybrid scheme that incorporates both a levy and a cap-and-trade approach, the International Maritime Emission Reduction Scheme (IMERS) would differentiate responsibilities between developed and developing countries and incorporate the UNFCCC's CBDR principle. Efficiency requirements, the other type of GHG reduction policy discussed under the IMO, would utilise two potential indicators for a ship's efficiency: the Energy Efficiency Operation Indicator and the Energy Efficiency Design Index.

Market-based instruments to regulate emissions will impact international trade because they impose an additional financial burden on transport, which could result in reduced imports and exports. For developing countries, specifically, this could increase the cost of food imports and lower demand for domestic products. Small island developing states, least-developed countries and land-locked developing countries stand to be most affected by higher bunker fuel costs due to their often remote locations, as well as their size and economic potential.

There are two main options to reduce the undesired economic impacts of a climate mitigation policy on developing countries: (1) limiting the scope of the policy; and (2) using the revenues from economic instruments to offset the costs of the climate mitigation measures for developing countries. The strategy of limiting the scope of climate mitigation policy suggests that MBIs would be applied to carriers from or ships registered in Annex I countries only, which could lead to unequal competition and/or problems with carbon leakage. Alternatively, a series of interlocking thresholds could be applied strategically to ensure exemptions that allow shipping to and from LDCs and SIDS.

The second "equity safeguard" would allow revenues from policy options to transfer to climate change mitigation or adaptation in developing or climate-sensitive areas. There are

three strategies that could be employed: direct compensation, compensation based on import shares and compensation based on need for climate finance. Independent of the specific strategy chosen, revenues from market-based instruments could be collected and managed by an international body with equitable representation.

At this point, policymakers addressing regulation of emissions from international transport could consider three potential institutional arrangements: (1) Treat the IMO/ICAO fora separately from the international climate change negotiations and assume that, while the CBDR principle applies under the UNFCCC, it does not necessarily apply under the IMO/ICAO. At the same time, commitments made by developing countries under IMO/ICAO do not apply generally to the broader climate change negotiations. (2) IMO and ICAO hold off on initiating a sectoral approach until countries agree on binding target reductions under the broader climate change negotiations. (3) IMO and ICAO promote voluntary reductions in the sector and avoid the lengthy process of seeking binding commitments from developing countries.

Based on a thorough examination of the regulatory options for GHG reductions in the international transport sector, a series of recommendations can be made. First of all, the role of the IMO and ICAO in relation to the broader framework of global climate change should be clarified. Due to the urgency of the climate change threat, action should be taken in the most promising forum, which is most likely the IMO because it does not require consensus among states to reach a decision. Alternatively, implementation of unilateral approaches is most promising, but could create a patchwork of differing policies. Developing nations, in order to meet development targets, should get an exclusive standing in all fora and the importance of CBDR should be incorporated into any reduction strategy, independent of the forum within which it is applied. Lastly, in order to achieve emissions reduction targets in the international transport sector, greater cooperation among the IMO, IATA, ICAO, UNFCCC and the WTO is needed.

*This article is drawn from a background paper and an information note by Joachim Monkelbaan, which can be accessed [here](#).*

## IN BRIEF

### CBD COP 10 in Jeopardy Following Montreal ABS Negotiations?

The Convention on Biological Diversity's (CBD) Access and Benefit Sharing (ABS) negotiations taking place this week in Montreal, Canada were noted by observers as positive and generally constructive. However, because members were unable to effectively use the momentum gained when they met last in Montreal in July, the slow pace of progress is compromising the possibility of reaching a deal at the CBD's Conference of the Parties this October in Nagoya, Japan.

Hopes were high for ironing out remaining disagreement on an ABS deal this week, given the considerable improvements that were made to a draft text earlier this year (see Bridges Trade BioRes, [23 July 2010](#)). The long list of issues that needed to be addressed in this second Montreal meeting included the understandings and concepts of genetic resources, utilisation and access and benefit sharing, the protocol's scope and relationship with other agreements, enforcement and compliance and a number of institutional issues.

While moderate improvement was made on the concept of utilisation, most other issues continued to linger in disagreement. This includes the core concepts of the protocol: What sources, actions, actors are covered? And how should benefit sharing take place?

"There is still a lot of work to be done" and the time remaining might prove too short to finalise the protocol, Timothy Hodges and Fernando Casas, Co-Chairs of the meeting, warned during the closing session.

In an infamous move in July this year Canada had objected to generalised ABS requirements, instead proposing contract terms on a case by case basis.

Developing countries and indigenous groups, pointing to their considerably weaker position, strongly objected. When this week's Montreal meeting saw little movement on this issue the group of Like-Minded Megadiverse Countries (LMMD), the Latin American and Caribbean Group (GRULAC) and the African Group called in question their support for a new CBD strategic plan or the financial strategy if the Protocol is not adopted.

Stalling ABS negotiations could thus develop a spill-over effect, causing detrimental harm to the Convention on Biological Diversity and all its sub-agreements.

With Nagoya starting in less than a month, states will not be able to properly resume again before COP 10 while the high-level meeting itself would – if the protocol is to be adopted –, need to hammer out a COP decision on ABS, a respective work plan and important interim arrangements addressing ratification, the protocol's place in the new CBD strategic plan and relevant financial considerations. In a final attempt to turn this into a success story, members will reconvene the weekend before COP 10 and during the conference itself.

Considering the political and technical difficulties that continue to characterise these negotiations an interim agreement leaving certain issues to new negotiations could be another alternative. However, whether this would bring about the much needed effective and reliable international ABS regime is questionable.

ABS is the CBD's third objective and is the only one that has not been implemented through design and adoption of a legal instrument to date. The mechanism is of great importance to developing countries and negotiations are often characterised by North-South differences.

In other biodiversity news, some 140 countries represented in the UN General Assembly met to review developments and challenges regarding the UN's Millennium Development Goals (MDGs), the seventh of which targets the "substantial reduction of biodiversity loss by 2010." Experts reported that in 2010 – the Year of Biodiversity – ecosystems and species continue to disappear

at an unprecedented rate. According to UN estimates, species are disappearing at one hundred times the natural rate of extinction.

"Communities everywhere will reap the negative consequences [of biodiversity loss], but the poorest people and the most vulnerable countries will suffer most," UN Secretary General Ban Ki-moon said at the meeting. "Seventy percent of the world's poor live in rural areas, and depend directly on biodiversity for their daily sustenance and income."

ICTSD Reporting, "Briefing Note on the CBD ABS Negotiations," EARTH NEGOTIATIONS BULLETIN, September 23 2010; "Biodiversity Talks Bog Down over Genetic Resources," INTER PRESS SERVICE, 21 September 2010.

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## Jakarta Moves to Comply with EU Timber Legislation

Indonesia has launched a new system aimed at verifying the legality of domestically harvested timber before it exports. The move is seen as an effort to conform to recently approved EU import restrictions on illegal timber.

The Timber Legality Verification System (or SVLK in its Bahasa Indonesia acronym) would apply to almost all forests in Indonesia, and is supposed to bring timber exports in line with EU laws, which now restrict the importation of illegally harvested timber (see Bridges Weekly, [23 June 2010](#)). Jakarta says the SVLK system will allow all exports destined to the EU market to be fully traceable through the supply chain to their source.

The EU legislation bans the import of illegal timber into the EU, and aims to force timber exporters to prove the legality of their timber - even if raw logs are first sent elsewhere for processing. The SVLK signals Jakarta's further commitment to establishing a Voluntary Partnership Agreement (VPA) with the bloc.

Indonesia and the EU began VPA talks in 2007. A technical meeting between both parties will take place this month in Jakarta to clarify details of the

agreement and the deal is expected to be signed later this year. Full features of the agreement are expected to be implemented by 2013.

In Indonesia, stakeholders in the timber industry have already agreed to work with the SVLK system. Jakarta has also indicated that the system is in line with the country's battle against illegal logging. With 120 million hectares of forests and one third of its timber exports going to the EU the move is key to maintaining a positive trade relationship.

VPAs lie at the core of the European Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, the EU's response to a call for action at the 2002 World Summit on Sustainable Development in Johannesburg, South Africa. Beyond VPAs, Brussels promised to require EU member states to purchase sustainable forest products, and to introduce a legislative measure discouraging the importation of wood from unknown - and thus, potentially illegal - sources. The new EU legislation marks a significant move towards this goal.

The EU has inked VPA deals with a hand full of African countries and is currently in negotiations with several other countries, including Malaysia, Liberia, and Central African Republic.

ICTSD Reporting; "Indonesia Bans Exports of Illegally Harvested Timber," THE JAKARTA POST, 13 September 2010.

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## Lamy Praises Report at Montreal Energy Meeting

WTO Director-General Pascal Lamy embraced the findings of new report by the World Energy Council at the organisation's 21<sup>st</sup> major Congress, held last week in Montreal, Canada. Pointing to the findings by the Task Force of the World Energy Council on "Trade and Investment Rules for Energy" - which expresses support for the Multilateral Trading System - Lamy said he agreed that the international community has yet to take a strategic approach to the rules of the multilateral trading system with respect to energy trade.

While several portions of the WTO rules are relevant to energy, they remain relatively scattered, with little over-arching global policy consensus or goal. According to Lamy, a stronger WTO rule-book could benefit the energy sector because, just as with any sector where trade is feasible, trade restrictions are feasible too.

Current WTO rules address issues such as trade-restrictive practices by state-trading enterprises, subsidies, export restrictions of various sorts, restrictions on transit, investment, and the movement of energy service providers often only by default.

Addressing the crowd of global leaders from the energy sector, Lamy said that more predictable and transparent trade rules in the energy field could benefit both energy producing and consuming nations.

What is needed, Lamy said, is that the poor must see their access to energy increased. To accomplish this, poverty levels must decline and the cost of energy must be made cheaper, he said. Secondly, the director-general said that energy issues cannot be divorced from the climate crisis. Pointing out future increases in global energy needs, Lamy said that the world needs greater energy efficiency, increased access to renewable sources, and improved lifestyles because current patterns of energy-use are harming the planet.

Energy security also implies that energy supply must be allowed to expand and to travel more readily from countries where there is surplus, to countries where there is demand (just as with any other natural resource). Traditional sources of energy are heavily geographically concentrated. A clear element of energy security would reside in the predictability of energy supply. According to Lamy, more sophisticated WTO rules could help achieve these goals.

With the changing composition of the WTO's membership, and with energy exporting countries, such as Russia, Libya and Algeria negotiating their accession, the imperative could become stronger to address the energy sector more fully.

Another main point that Lamy made in his address at the Congress, is that achieving

consensus on the ongoing Doha Round will help improve access to clean energy by reducing tariffs and subsidies, improving transit rules, opening energy services, and liberalising trade in climate-friendly technologies. Today, the global value of the environmental goods and services industry is estimated to be around US\$800 billion, making it comparable in size to the aerospace and pharmaceutical industries. Through more open markets, greater competition, and the spread of clean technology, the Doha Round can help stabilise the international trade and investment landscape in the energy field, Lamy said.

Lamy also drew attention to this year's World Trade Report of the WTO, that has been devoted to natural resources because of its clear relevance to energy (see Bridges Trade BioRes, [23 July 2010](#)).

ICTSD Reporting.

## EVENTS AND RESOURCES

### Events

For a more comprehensive list of events for the trade and environment community visit the BioRes [online](#) [calendar](#).

### Coming up in the next two weeks (24 September – 8 October)

27-28 September, Venice, Italy. BIOECON CONFERENCE. This twelfth annual Biodiversity and Economics for Conservation (BIOECON) conference is titled: "From the Wealth of Nations to the Wealth of Nature: Rethinking Economic Growth". The conference, hosted by Fondazione Eni Enrico Mattei in association with the Basque Centre for Climate Change, Conservation International, the International Union for Conservation of Nature, and the United Nations Environment Programme, targets researchers, environmental professionals, international organisations and policy-makers who are interested in working towards a better, more effective stewardship of natural capital. The central theme will focus on the identification of the most effective and efficient instruments for

biodiversity conservation, such as auctions of biodiversity conservation contracts, payment-for-services contracts, taxes, tradable permits, voluntary mechanisms and straightforward command and control measures. For more information or to register visit the [conference website](#).

27 September – 2 October, Astana, Kazakhstan. SIXTH MINISTERIAL CONFERENCE ON ENVIRONMENT AND DEVELOPMENT IN ASIA AND THE PACIFIC. This gathering of ministers of environment and of development is an agenda-setting forum to assess the state of sustainable development, identify regional perspectives and priorities, and decide concerted actions in response to imperatives posed by global and regional environment challenges. It is co-organised by the UN Economic and Social Commission for Asia and the Pacific (ESCAP). The event is based on the recognition that the Asia and Pacific region continues to face persistent development challenges in terms of poverty alleviation, better access to basic services, sustainable use of natural resources and enhanced social inclusiveness. For more information visit the [conference website](#).

29 September – 1 October, Rotterdam, Netherlands. DELTAS IN TIMES OF CLIMATE CHANGE. This conference is organised by two Dutch research programmes on climate change and spatial planning (Climate changes Spatial Planning and Knowledge for Climate), the city of Rotterdam and the Co-operative Programme on Water and Climate. It will bring together scientists, politicians, policy makers and practitioners to share their experience and knowledge. Researchers will exchange the latest scientific insights on topics such as flood risk management, salt water intrusion and governance. Panels of leading figures from the political and business communities will discuss subjects such as international co-operation and financing mechanisms for adaptation. For more information visit the [conference website](#).

4-8 October, Rome, Italy. TWENTIETH SESSION OF THE COMMITTEE ON FORESTRY - SECOND WORLD FOREST WEEK. The Committee on Forestry (COFO) and the World Forest Week will be held in

conjunction at the Food and Agriculture Organisation (FAO) headquarters. World Forest Week will consist of a series of meetings and events sponsored by FAO and its partner organisations and institutions. The events will be organised around the key topics of the COFO and intend to shed more light on key issues and lead to more detailed discussions. The University of Tuscia (Italy) and FAO, with the support of the International Union of Forest Research Organisations (IUFRO) will organise a conference on “Emerging Economic Mechanisms: Implications for Forest-Related Policies and Sector Governance.” Additionally, there will be two panel discussions on forest governance and on REDD-plus with participation from heads of forestry and lead scientists. The event aims to remove traditional boundaries and foster a continued science-policy dialogue. For more information or to register for the event visit the [FAO website](#).

4-9 October, Tianjin, China. UNITED NATIONS CLIMATE CHANGE CONFERENCE. The fourteenth session of the AWG-KP and the twelfth session of the AWG-LCA is the last formal round of negotiations before the climate summit in Cancun, Mexico later this year. The Tianjin conference will be critical in allowing countries to begin to identify the main issues that should be discussed in Cancun. Environmentalists and political leaders have said they hope the end of the year summit in Mexico will be more productive than the 2009 climate conference in Copenhagen. The meetings in Tianjin will likely factor into the outcome of the Cancun summit. For more information visit the conference [website](#).

5-8 October, Santo Domingo, Dominican Republic. SECOND INTER-AMERICAN MEETING OF MINISTERS AND HIGH AUTHORITIES ON SUSTAINABLE DEVELOPMENT. This meeting is a follow-up on a mandate from the Heads of State and Government of the Americas from the Fifth Summit of the Americas in January of this year. The goal of this upcoming event is to build upon the prior agenda inspired by the Declaration of Santa Cruz + 10 and the Inter-American Program on Sustainable Development, and



address emerging environmental concerns. To learn more, visit the [OAS website](#).

### Other upcoming events

13-15 October, Geneva, Switzerland. INCREASING THE MOMENTUM OF FOSSIL-FUEL SUBSIDY REFORM: DEVELOPMENTS AND OPPORTUNITIES. This two-day conference, organised jointly by IISD's Global Subsidies Initiative (GSI) and the United Nations Environment Programme (UNEP), aims to facilitate a deeper understanding of the issues, activities and opportunities for international collaboration on issues related to fossil-fuel subsidies. The event will feature representatives from international organizations such as the OECD, UNEP, World Bank, WTO and OPEC, as well as international fora such as G-20, APEC and the Friends group of countries that support reforming fossil-fuel subsidies. The conference is entirely open to the public. For more information, visit the [GSI website](#).

1-3 November, London, UK. CROP WORLD 2010. CropWorld 2010, the global congress and exhibition for all those at the forefront of sustainable crop production, will feature conferences and exhibitions with key decision makers and experts from across the crop production industry. The conference programme will encompass nearly every aspect of the crop production value chain from soil preparation and seeds to shops and store shelves. The three day conference will include a series of plenary sessions led by key stakeholder organisations in global crop production, including top government representatives, chief scientists, influential business leaders and many more. For more information visit the CropWorld 2010 [website](#).

11-12 November, Seoul, South Korea. G20 SUMMIT IN SEOUL. Building on past achievements and close cooperation among members, the G20 will double its efforts in 2010 to help the world make a successful transition from global recovery to stronger, more sustainable and balanced growth. Among the issues to be addressed at the Seoul summit will be the completion of the International Monetary Fund's quota reform. In addition to financial regulatory reform and policy coordination, South Korean

President Lee-Myung-bak vowed to promote an outreach program for countries that are not represented at the G-20. Building global financial safety nets that can mitigate the destructive effects of liquidity crises and a plan to host a business summit to coincide with the G-20 Summit in November will also be key issues. For more information visit the G20 [website](#).

22-23 November, Paris, France. WORKSHOP ON RISK MANAGEMENT IN AGRICULTURE. This workshop is an opportunity to share policy experiences on risk management in agriculture from different countries, in particular those that were part of the thematic review. However, the workshop goes further by introducing a forward-looking policy dialogue to define risk-related policy objectives, analyse current government responses, develop policy lessons, and identify new challenges as well as existing information gaps. The structure of the workshop is based on the holistic approach and focus on the linkages between risks, strategies and policies and on the differentiated response to different risk layers: catastrophic, marketable and normal risk. For more information visit the workshop [website](#).

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## Resources

TRENDS IN PATENT ACTIVITY IN THE COSMETICS AND PERFUME SECTORS. Union for Ethical BioTrade (UEBT). September 2010. Biodiversity is recognised as a source of innovation in the cosmetics sector. But how is it addressed in the context of patents? This is the first in a series of four information notes aimed at creating a better understanding how patenting strategies support ethical sourcing practices in the cosmetics sector. The paper looks at the growing number of patents related to cosmetics, the relative significance of patent activity in relation to natural ingredients, the top patent assignees for cosmetics and perfumes, and raises questions on how the cosmetics sector addresses the Convention on Biological Diversity (CBD). This paper and the subsequent issues of the series (to be released separately in the run up to the UN Biodiversity Summit in October) can be accessed on the [UEBT website](#).

THE ARCHITECTURE OF GREEN ECONOMIC POLICIES. By Rao, PK. June 2010. This book offers a policy framework for economic policies that meaningfully integrate environmental and ecological resource factors. The role of environmental analysis in economic policy making has remained largely limited despite vast literature on environmental economics and governance. An effective integration of economic and environmental sciences with pragmatic design of institutions and policies is still urgently needed for practical use. Based on analyses and new insights on sustainable development, this book provides pragmatic approaches for economic policy formulation and implementation, as well as for institutional reform. Thematic aspects include trade and environment, poverty and environment, recognition and accounting of factor limitations beyond traditional economic analyses, and an efficient choice of market and regulatory regimes for effective economic, environmental and social governance. This book is can be purchased or viewed [online](#).

PROSPECTS FOR MAINSTREAMING ECOSYSTEM GOODS AND SERVICES IN INTERNATIONAL POLICIES. By Kok, MTJ; Tyler, SR; Prins, AG; Pinter, L; Baumuller, H; Bernstein, J; Tsioumani, E; Venema, HD; Grosshans, R., August 2010. This study, published by the Netherlands Environmental Assessment Agency, shows how local delivery of ecosystem goods and services is closely linked to international policies on development cooperation, trade, climate change and reform of international financial institutions. Degradation of ecosystems worldwide threatens local and regional supplies of food, forest products and fresh water, and also biodiversity. Ecosystem management decisions made locally are influenced by national and international policies. Integrating or mainstreaming ecosystem goods and services considerations into these policies provides significant opportunities to contribute to reducing poverty while simultaneously improving the quality locally. Tools to mainstream ecosystem goods and services into non-environmental policy domains are available, but there are few examples of their systematic application. Examples of tools that could play a constructive role in this process are the monitoring and reporting mechanisms

developed by the Convention on Biological Diversity (CBD). This study can be accessed on the Netherlands Environmental Assessment Agency [website](#).

LEGALHARVEST VERIFICATION STANDARDS. By Scientific Certification Systems, Inc. (SCS), August 2010. The LegalHarvest Verification (LHV) Standards for Forest and Chain of Custody Operations are intended for use in evaluating an organisation's legal right to harvest and transport timber products. Verification Statements will be issued to organisations that demonstrate conformity to the standards and are intended to provide greater assurances to timber buyers. The LHV Standard for Forests is generic and SCS is currently working with local experts and stakeholders in various timber exporting countries to adapt it to local harvesting laws and regulations; the current generic LHV Standards are posted on the [SCS website](#) and versions of country-adapted standards will be posted as they are developed.

FISHERIES: WHILE STOCKS LAST? By Organisation for Economic Co-operation and Development. September 2010. This book offers insight into the many issues surrounding fisheries and the fishing industry. It addresses topics such as globalisation, North-South relations, changing attitudes and lifestyles, and the way we manage natural resources, and how this all influences fisheries. This book uses the expertise of the OECD to assess these issues, and describes the challenges facing those who work in the industry. Apart from the fishers themselves and their families, it also draws on the points of view of NGOs, government specialists, scientists and independent experts. For more information visit the OECD [website](#).