

U.S. Climate Change Policy and International Trade Policy: Issues Needing Innovation for a Rapidly Expanding Joint Agenda

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Outline of Comments

I. Objectives, Context and Overview

II. Today's Focus

**Offsetting Border Measures
Tariffs and Non-Tariff Barriers
Aviation and Maritime Transport**

III. Implications

Objectives

1. *Identify specific intersections* of climate change and trade issues on the joint agenda, including their context and status
2. *Develop recommendations* for the advancement of climate change mitigation and trade – and the climate and trade international regimes

“Trade”

Interpreted broadly to include...

Trade in goods and services

Foreign direct investment

International technology transfer

Context: Developments and Salience

Discussions and actions in Europe concerning offsetting border measures

EU proposal for climate friendly goods in WTO – now with joint US sponsorship

Informal trade ministers meeting at climate change conference in Bali

Negotiations in progress on post-2012 climate regime

U.S. Congress climate change and climate-related energy bills with trade provisions

Overview of types of intersections

- Offsetting border measures
- Tariff and NTB reductions
- Aviation and shipping industries
- Export and outward FDI promotion
- International technology cooperation agreements
- Program budgets
- Subsidies for renewables and energy efficiency
- Product labeling and standards
- Government procurement
- CDM and JI projects
- More...?

1. Offsetting Border Measures

Framing the Issue: What is the problem?

Free riders on multilateral agreements

Carbon leakage from one country to another

International competitiveness of firms within certain industries

Proposals in US Congress

Bingaman-Specter and Lieberman-Warner cap-and-trade bills in Senate

American Electric Power and International Brotherhood of Electrical Workers

Require US importers to purchase GHG emission allowances to offset covered goods from covered countries

Policy Innovation Path

European Parliament: Consider offsetting tariffs or other measures on imports from free riders? Yes

European Commission: *No*

US Congress: *Threaten* to use allowance purchase

European Commission: *split / maybe later*

Next: *international agreement ?*

Current Situation in US

Lieberman-Warner (S. 2191):

passed committee by 11-8

Supported by 10 Democrats + 1 Republican

Opposed by 8 Republicans

Issues:

Domestic political support...?

WTO compatibility ... ?

International reaction ... ?

Domestic Alternatives for "Vulnerable Industries"

1. Exclude from domestic cap-and-trade system

2. Distribute free allowances, i.e. not auctioned

Problem: undermine effectiveness of system

Suggestions

- Include explicit statement in legislation: US support for *multilateral* climate and trade institutions
- Allow participation of US importers in *foreign offset projects* as well as purchases of USG "international allowances"
- Incorporate offsetting border measures in post-2012 "sectoral" agreements
- Propose (jointly with EU) free-rider trade sanctions in post-2012 *multilateral* climate regime

2. Tariffs and Non-tariff Barriers

European Commission (Mandelson):
proposal, December 2006, for WTO Doha
negotiations: eliminate tariffs on climate-
friendly goods (policy innovation)

EU-US *joint* proposal November 2007:
List of 43 manufactured goods

Reactions: India, Brazil

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Illustrative Tariffs: Applied Rates (%)

6-Digit HS Code Categories (Manufactured goods)	Avg. Low- Middle Income WTO Cos.	Avg. High Income WTO Cos.	US
43 climate friendly goods (range)	4-18	1-5	0-6.7
Wind turbine towers	10	3	0
Solar driven stoves & other appliances	18	5	0-5.7 (8 digit)

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Illustrative Tariffs in *Biofuels* Industry: Applied Rates

US ethanol: 2.5% + US\$ 0.54/gal

	<u>Oilseed Crushing</u> <u>Machines</u>	<u>Oil Extraction</u> <u>Machines</u>
US	35%	35%
China	30	30
India	25	25

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Another Illustrative Tariff

EU – Compact Fluorescent Light Bulbs
(CFLs)

50+% now being phased out after 5 years

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Suggestions

Expand the negotiating agenda:

- Add biofuels (biodiesel and ethanol) – with GHG certification
- Add other manufactured goods, e.g. CFLs and oil seed processing equipment, and additional 18 products on USTR list from EPAAct2005 study
- Add non-tariff barriers, services and investment

3. International Aviation and Maritime Shipping

Increasing GHG emissions in both industries
(aviation currently 3-9% of world total emissions)

Both industries are *outside* the multilateral climate regime *and* multilateral trade regime (instead in: ICAO and IMO)

First international trade-climate international “dispute” (outside WTO): USG objections to EU aviation proposal for ETS

US domestic conflict: California and NGO petitions to US EPA

Suggestions

- Negotiate inclusion of aviation and maritime shipping in post-2012 climate regime, perhaps in multilateral or plurilateral transportation “sectoral” agreement
- Negotiate addition of both industries to WTO services agreement (GATS)
- Support Norwegian government leadership

Implications

1. Joint climate-trade agenda is rapidly expanding across industries, countries, and policy domains
2. Complex *multi-level* regimes are emerging: multilateral, plurilateral, regional, bilateral, unilateral
3. WTO - compatibility is only one of many issues
4. Governments and international institutions need innovative approaches to address the new issues

New Approaches to ...

Mix of markets and government policies:

More selective government intervention, including in trade, to address market failures.

End of the "Washington consensus" and beginning of the "Brussels consensus"?

Mix of multilateral and other international agreements:

Complexities, uncertainties and inefficiencies for *business*.

Resurgence of multilateralism in US?

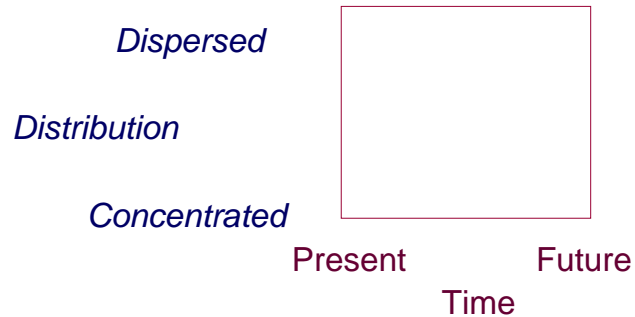
Political Economy of Climate Change

Redistribution of Benefits and Costs ...

... over Time

... and across Groups

Patterns of Political Economy: Timing and Distribution of Costs and Benefits



For further information and comments

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