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Economic Cooperation**

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How to Make Trade and Environment Policies Work Together in the Next Normal Era

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How to Make Trade and Environment Policies Work Together in the Next Normal Era

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Outline

1. The Next Normal Era

-“Double Impact” of Climate Change and Climate Mitigation Measures

2. Elements for Trade and Environment (Climate Mitigation) Policies to Work Together

-Operationalising “pre-emptive cooperation”

The Next Normal Era – “Double Impact”

“Parties may be affected not only by climate change but also by the impacts of the measures taken in response to it” - Paris Agreement

Double Impact

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graph TD; A[Double Impact] --> B[Impact of Climate Change  
"First order or direct Impact"]; A --> C[Impact of Climate Mitigation Measures  
aka "Response Measures"  
"Second order Impact"];
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Impact of Climate Change

“First order or direct Impact”

**Impact of Climate Mitigation Measures
aka “Response Measures”**

“Second order Impact”

The Next Normal Era – “Double Impact”

Impact of Climate Change

“First order or direct Impact”



The chance of temporarily exceeding 1.5°C has risen steadily since 2015, when it was close to zero. For the years between 2017 and 2021, there was a 10% chance of exceedance. That probability has increased to nearly 50% for the 2022-2026 period.

For as long as we continue to emit greenhouse gases, temperatures will continue to rise. And alongside that, our oceans will continue to become warmer and more acidic, sea ice and glaciers will continue to melt, sea level will continue to rise and our weather will become more extreme. Arctic warming is disproportionately high and what happens in the Arctic affects all of us”.

WMO Secretary-General Prof. Petteri Taalas
The Global Annual to Decadal Climate Update

The Next Normal Era – “Double Impact”

Impact of Climate Mitigation Measures/Response Measures

-

“Second order Impact”

Positive

Output and employment in low-carbon industries are likely to grow

Negative

Energy-intensive sectors may stagnate or contract

Domestic

Cost for households and Industries from carbon tax, higher electricity prices, energy efficiency requirements

Cross-border

Impacts of trading partners’ measures on imports, eg, carbon border tax adjustments, carbon footprint standards

What is the net impact on output and employment?

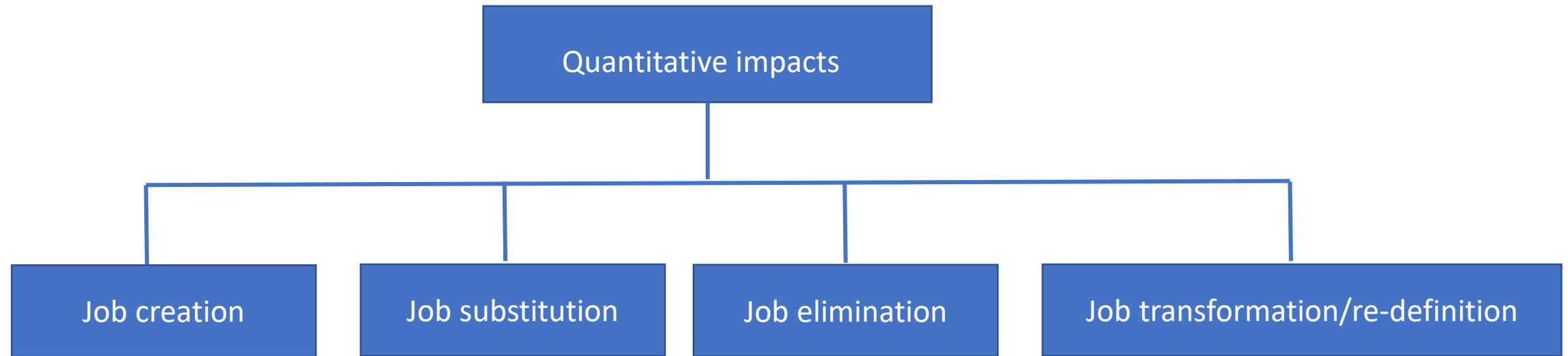
The interface between Response Measures and WTO law

Climate Mitigation Measures/Response Measures are largely trade measures and/or will have trade implications

- Carbon/Energy taxes
- Cap-and-trade schemes and offsets
- Carbon border Tax Adjustments
- Carbon Credit initiatives
- Carbon/Energy efficiency standards and labelling requirements
- Carbon/Energy subsidies

The Next Normal Era – “Double Impact”

Net impact of Response Measures on employment - Quantitative aspects



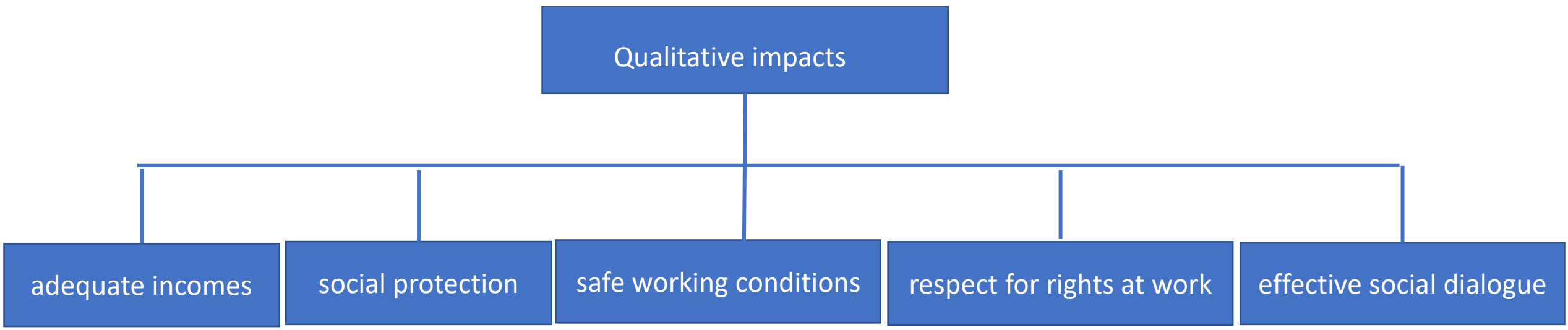
- ❑ The scale and extent of these impacts depend on the speed and breadth of technological and market changes in the green transformation
- ❑ Policymakers must smooth this transformation by developing just transition policies for affected workers, enterprises and their communities

Source:

Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs. Technical paper, UNFCCC. 2017

The Next Normal Era – “Double Impact”

Net Impact of Response Measures - Qualitative aspects



Source:
Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs.
Technical paper, UNFCCC. 2017

The Next Normal Era – “Double Impact”

Workers are at the center of the low carbon transition

- ❑ **Paris Agreement:** Parties to take into account the imperatives of **Just Transition** of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities
- ❑ Parties agree that **Just Transition** coupled with **Economic Diversification** are the two main strategies to enhance the positive impacts and reduce any negative impacts of the implementation of Response Measures

❖ **Just transition** refers to efforts to ensure that a transition to low carbon world is fair to workers involved in high carbon and carbon intensive sectors and no one is left behind in the low carbon transition

❖ **Economic diversification** refers to moving an economy away from reliance on a narrow range of products that are affected by Response Measures taken to mitigate climate change

The Next Normal Era – higher mitigation actions, greater impacts

Glasgow Climate Pact - turning the 2020s into a decade of climate action

- ❑ Parties to strengthen their NDCs to align with the Paris Agreement temperature goal of 1.5 degrees C by the end of 2022
- ❑ Parties to communicate long-term strategies towards net zero emissions by or around mid-century, and update the strategies regularly
- ❑ Three new processes to drive ambition
 - work program to scale up mitigation ambition and implementation. Decision on to be adopted at COP27
 - annual high-level ministerial round table beginning at COP27 to translate technical discussions into political outcomes
 - annual report at each COP to examine how NDCs will achieve the Paris temperature goal
- ❑ Parallel mitigation efforts
 - Phase-down of coal power
 - Phase-out of inefficient fossil fuel subsidies
 - Scaling up the deployment of clean power generation and energy efficiency measures
 - Commitment by over 100 parties to reduce methane emissions by 30% by 2030
 - Parties to protect, conserve and restore nature and ecosystems

Glasgow Climate era

The more ambitious the cycles of Response Measures, the greater the economic and social impacts

The Next Normal Era – Double Impact, summing up

- ❑ The “Double Impact” of Climate change and Response measures will be more in the coming years. There will be economic, social and environmental impacts.
- ❑ The more ambitious the Response measures, the greater the domestic and cross border impact on Parties. The impacts can be positive or negative. They could also potentially modify the condition of competition in various sectors.
- ❑ Response Measures will interface with various WTO Agreements
 - Carbon Tax with GATT Art 1 (MFN) and Art III (National Treatment)
 - Energy Efficiency/carbon footprint standards with TBT Agreement
- ❑ Depending on how these Response Measures are designed and applied, they can be incompatible with WTO law.
- ❑ The inter-linkages between Response Measures and WTO law will become more pronounced as Parties take actions to implement the Glasgow Climate Pact.
- ❑ Trade-Climate disputes are more likely in a world of uncoordinated and conflicting national and global responses to climate change

Questions

- How can potential trade-climate dispute be prevented?
- How can parties meet their climate obligations while respecting their WTO obligations
- How can Trade and Climate Mitigation Policies Work Together?

Elements for Trade and Climate Mitigation Policies to Work Together

What does the WTO say

WTO Marrakesh Ministerial Decision:

There should not be, nor need be any policy contradiction between upholding and safeguarding an open, non-discriminatory and equitable multilateral trading system on the one hand, and action for the protection of environment and promotion of sustainable development on the other

What does the UNFCCC say

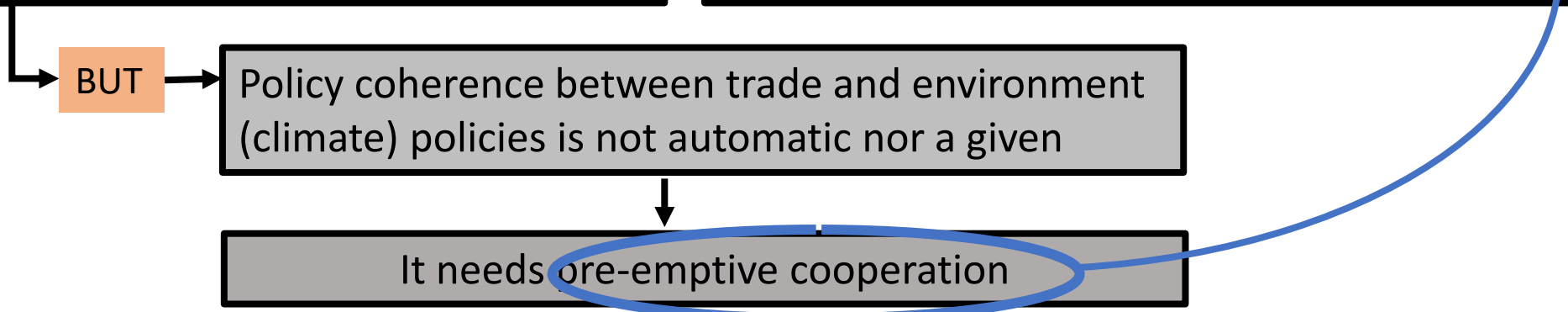
UNFCCC- IPCC 5th Assessment Report:

There are numerous and diverse explored opportunities for greater international cooperation in trade –climate interactions. While mutually destructive conflicts between the two systems have thus far been largely avoided, pre-emptive cooperation could protect against such developments in the future

BUT

Policy coherence between trade and environment (climate) policies is not automatic nor a given

It needs pre-emptive cooperation



Elements for Trade and Response Measures to Work Together

-Operationalising pre-emptive cooperation

5 pillars of Pre-emptive Cooperation

1. Coordination at the Domestic and International Levels
2. Good practices to foster coherence between Trade and Response Measures
3. Transparency of Response Measures
4. Engaging Stakeholders to promote climate friendly Response Measures across the Economy
5. Just transition of the workforce and creation of decent work and quality jobs

Operationalising pre-emptive cooperation

Pillar 1: Coordination at the Domestic and International

Levels

Coordination to take place at two levels, three contexts

At the Domestic Level

Whole-of-Government coordination - Economic, Environment, Energy, Manpower Ministries

Domestic

Within International organisations
UNFCCC's Forum, WTO's CTE

International

Between International Organisations
UNFCCC, WTO, ILO

International

WT/CTE/1, 12 Nov 1996, paras 171, 174

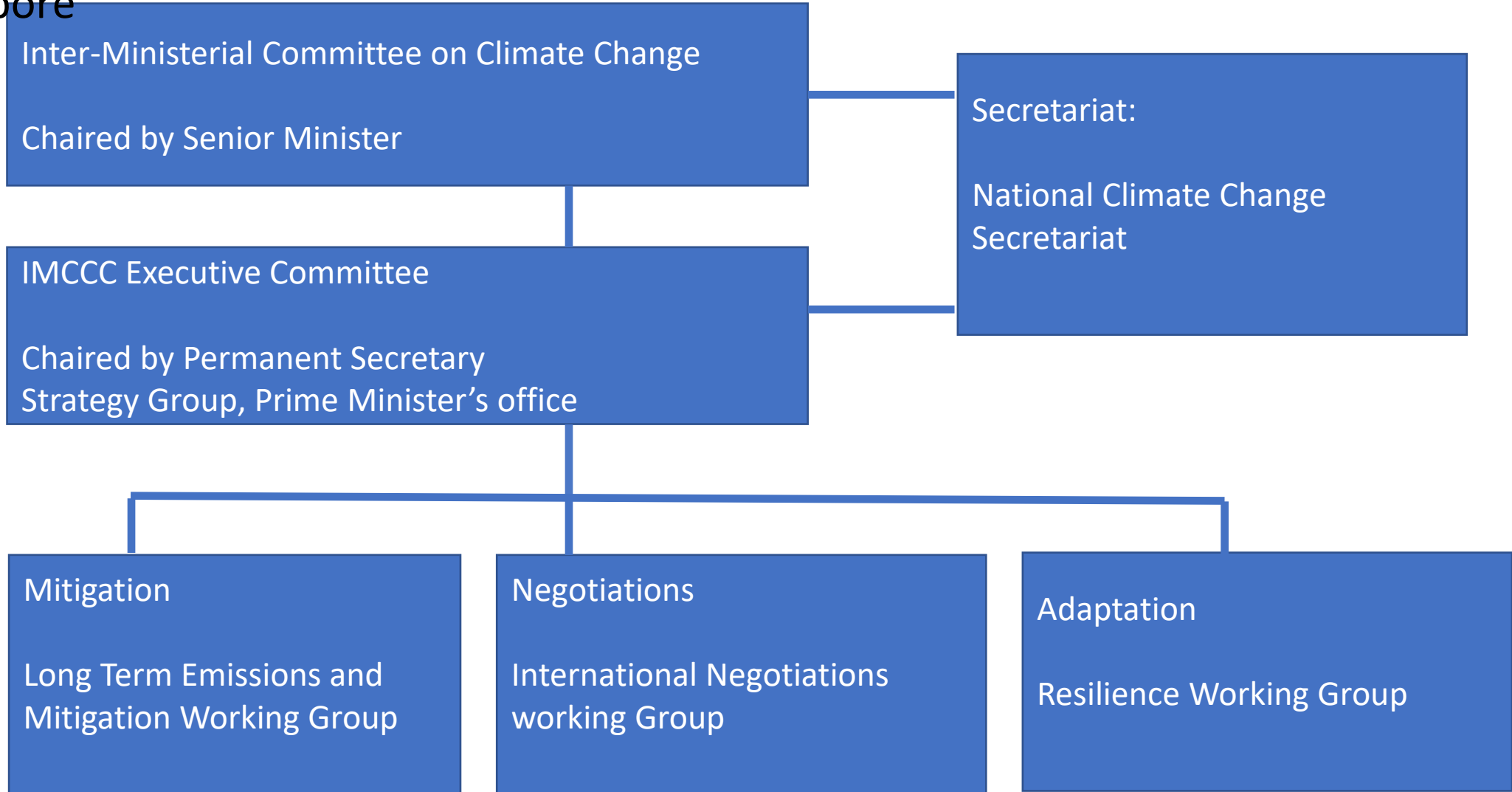
The CTE supports multilateral solutions based on international cooperation and consensus as the best and most effective way for governments to tackle environmental problems of a transboundary or global nature..

The CTE recognizes that the evolving relationship between MEAs and the multilateral trading system is complex and that different questions may emerge. In this respect...

- Policy coordination between trade and environment policy officials at the domestic level plays an important role in ensuring that WTO Members are able to respect the commitments they have made in the separate fora of the WTO and MEAs and in reducing the possibility of legal inconsistencies arising.
- In order to enhance understanding of the relationship between trade and environmental policies, co-operation between the WTO and relevant MEAs institutions is valuable and should be encouraged. The CTE recommends that the WTO Secretariat continue to play a constructive role through its cooperative efforts with the Secretariats of MEAs and provide information to WTO Members on trade-related work in MEAs.

Operationalising pre-emptive cooperation
Pillar 1: Coordination at the Domestic Level in

Singapore



Parties to respect UNFCCC principles and provisions

- ✓ Factor the 'domestic circumstances' of parties identified in Articles 4.8, 4.9, 4.10 of the Climate Convention when they design and apply their Response Measures. For example, Art 4.10 of the Convention refers to the situation of Alternative Energy Disadvantaged parties.
- ✓ Fully implement Art 3.5 of the Convention. All parties to promote a supportive and open international economic system, and not discriminate nor restrict international trade. This is based on the recognition that an open economic system is critical for sustainable economic growth and development in all parties. This will in turn enable parties to better address climate change.

Parties to take account of partner parties' climate mitigation efforts

- ✓ Companies should not be taxed twice for the same unit of emissions.
- ✓ Parties seeking access to high environmental-integrity carbon credits traded internationally through well-regulated, transparent, and open trading platform should not be subject to the Carbon Border Measures

Parties to respect WTO rules. Response Measures must be consistent with rules such as non-discrimination (ie. national treatment and MFN)

Parties to progressively reduce and phase out tariffs and burdensome NTMs for goods, services and technology necessary for climate mitigation

Parties should not hinder Economic diversification and Just transition efforts of other parties

Operationalising pre-emptive cooperation

Pillar 3 : Transparency of Response Measures

Ex-ante notification:

Providing opportunities for parties to comment on proposed Response Measures before they are implemented

Ex-post assessment:

Evaluating the actual impact of Response Measures and removing adverse impacts

WT/CTE/1, 12 Nov 1996, para 187

WTO transparency provisions and mechanisms are not an end in themselves. However, they fulfil an important role in ensuring the proper functioning of the multilateral trading system, in helping to prevent unnecessary trade restriction and distortion from occurring, in providing information about market opportunities and in helping to avoid trade disputes from arising. They can also provide a valuable first step in ensuring that trade and environment policies are developed and implemented in a mutually supportive way. The CTE considers transparency to be an important aspect of all Items of its work programme where the relationship of WTO provisions to specific trade-related environmental measures is receiving attention

Operationalising pre-emptive cooperation

Pillar 4 : Engaging Stakeholders to promote climate friendly Response Measures across the Economy

Meeting low-emission aspiration require the participation of and collaboration with individuals, civil society, academia, businesses, and the Government

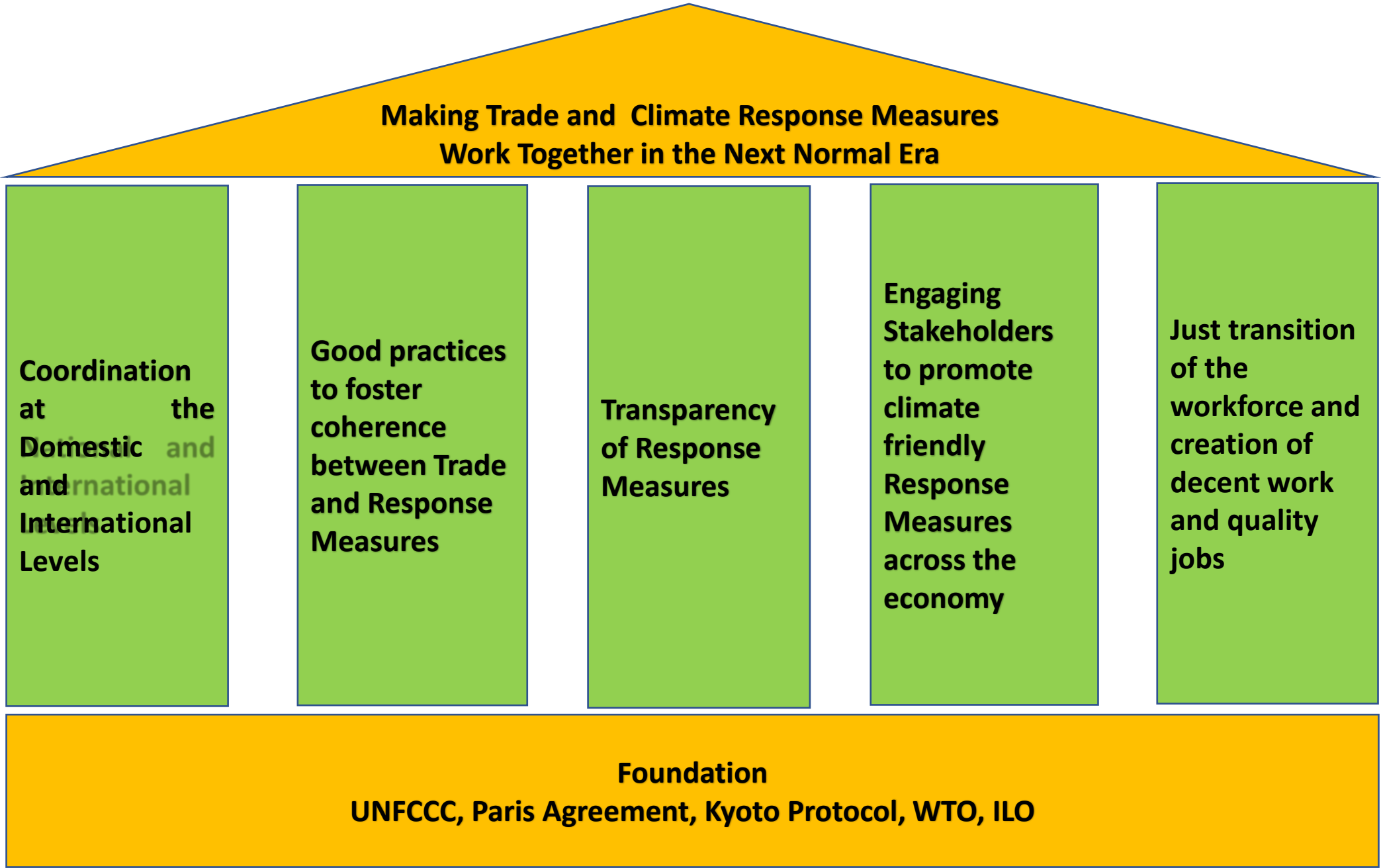
- Inform - what climate actions mean to stakeholders
- Socialise implications and opportunities
- Identify collaboratively ways to minimise adverse impacts of Response Measures
- Build consensus -generate support for action and partnerships
- Empower businesses to tap on opportunities and implement climate actions

Operationalising pre-emptive cooperation

Pillar 5: Just transition of the workforce and creation of decent work and quality jobs

- ❑ Parties to smooth the low carbon transition by developing just transition policies for affected workers, enterprises and their communities
- ❑ Develop workforce capability through re-skilling and up-skilling. To equip people with the ability to seize opportunities in the transition to the low carbon economy
- ❑ 2018 Silesia Declaration on Solidarity and Just Transition:
 - ✓ Just Transition is crucial to ensuring an effective and inclusive transition to low greenhouse gas emission and climate resilient development, and enhance public support for achieving the long term goals of the Paris Agreement
 - ✓ Parties to be guided by the “ILO Guidelines for just transition towards environmentally sustainable economies and societies for all”

Conclusion 1: The Trade-Response Measures House



Conclusion 2:

Low hanging immediate actionables to cushion the impact of Response Measures

Convention Article 3:5 Parties to keep Markets Open

- Parties to promote a **supportive and open international economic system**
- Measures taken to combat climate change, **should not constitute a means of arbitrary or unjustifiable discrimination or disguised restriction on international trade**
- Parties to progressively **reduce and phase out tariffs and burdensome NTMs** for goods, services and technology necessary for climate mitigation

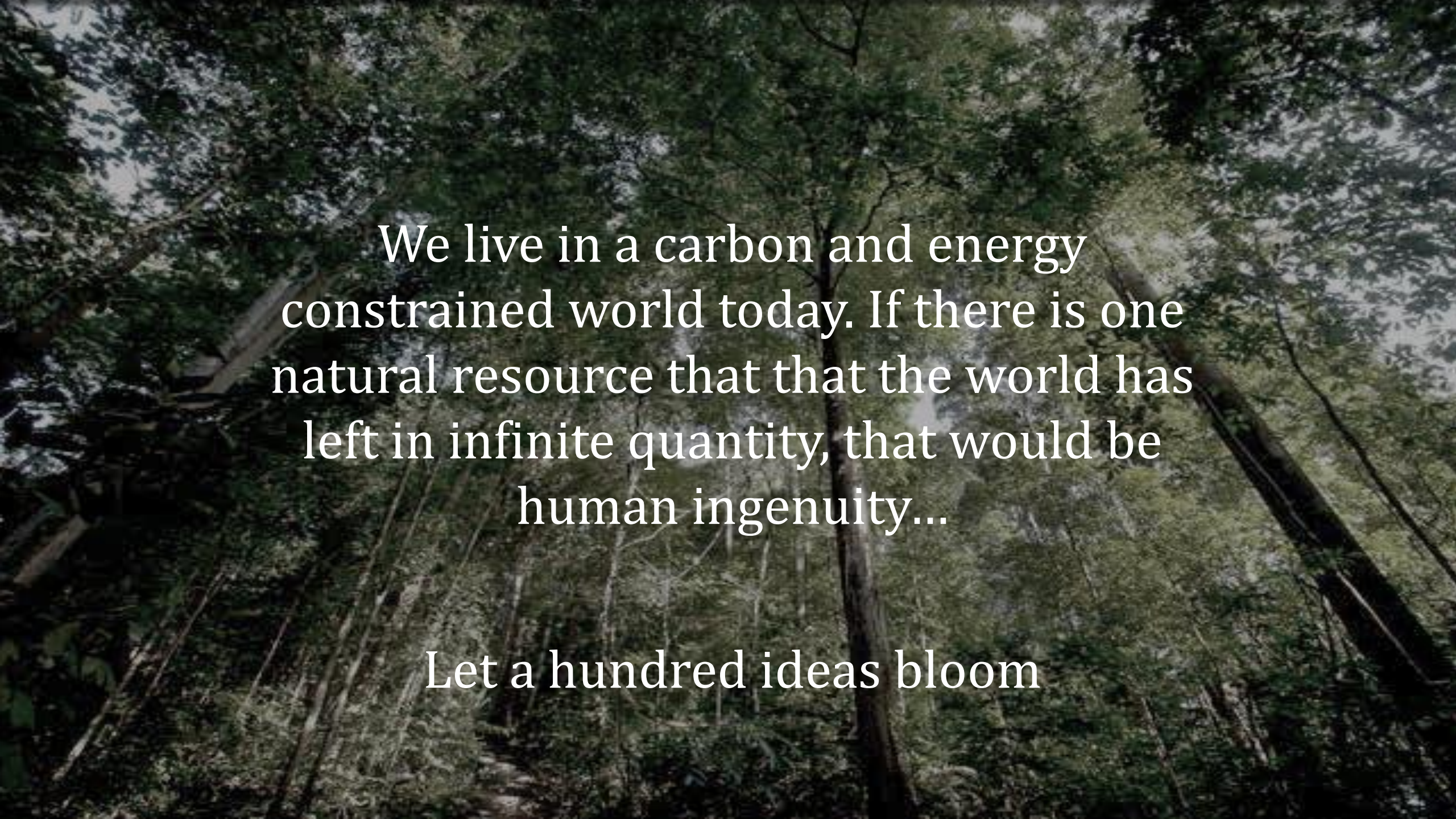
Convention Article 4: 8, 10 Parties to take account of AED constraints

- Parties to take into consideration in the implementation response measures/the commitments of the Convention, the situation of small island parties ...and **Parties with economies highly dependent on... the use of fossil fuels for which such Parties have serious difficulties in switching to alternatives**
- Parties must **factor AED constraints** in the design and application of their Carbon Border Measures with cross-border implications, ie. Carbon footprint standards, CBAMs

Paris Agreement

Parties to facilitate Economic Diversification and Just Transition of the workforce and the creation of decent and quality jobs

- These are the two main strategies to enhance the positive impacts and reduce any negative impacts of the implementation of Response Measures

A low-angle shot of a dense forest. The camera is positioned near the ground, looking up at the towering trees. Sunlight filters through the thick canopy of green leaves, creating a dappled light effect. The tree trunks are dark and vertical, creating a strong sense of height and scale. The overall atmosphere is serene and natural.

We live in a carbon and energy
constrained world today. If there is one
natural resource that that the world has
left in infinite quantity, that would be
human ingenuity...

Let a hundred ideas bloom

- Annexes

UN Framework Convention on Climate Change, 1992

❑ Convention Art 4:8 contains the core recognition of Response Measures

“In the implementation of the commitments..., Parties shall give full consideration to actions necessary under the Convention, including actions related to funding, insurance and transfer of technology to meet the specific needs and concerns of developing parties arising from the **adverse effects of climate change and/or the impact of the implementation of measures**”

❑ Convention Arts 4: 9, 10 identify the categories of parties which are vulnerable to the adverse impacts of the implementation of response measures, for example

- ✓ Small Island parties
- ✓ Economies which are highly dependent on income generated from the production, processing and export and/or, consumption of fossil fuels and associated energy intensive products
- ✓ Parties which have serious difficulties in switching to alternatives, ie., “Alternative Energy Disadvantaged Parties”

❑ Art 3:4 - Parties have the right to, and should promote sustainable development. Responses Measures should be integrated with national development programmes, taking account that economic development is essential for adopting measures to address climate change

❑ Art 3:5 - Parties should cooperate to promote a supportive and open international economic system that would lead to sustainable economic growth and development in all Parties, particularly developing Parties, thus enabling them to better address the problems of climate change. Measures taken to combat climate change should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade

Kyoto Protocol, 1997

- ❑ Annex I Parties to undertake progressive reduction or phasing out of market imperfections, fiscal incentives, tax and duty exemptions and subsidies in all greenhouse gas emitting sectors that run counter to the objectives of the Convention and application of market mechanisms
- ❑ Annex 1 Parties strive to implement policies and measures...in such a way to minimize adverse effects of climate change, effects on international trade, and social, environment and economic impacts especially on developing parties identified in Art:8, 9, 10 of the Convention

Paris Agreement, 2015

- Parties may be affected not only by climate change but also by the impacts of the measures taken in response to it
- Parties shall take into consideration in the implementation of the Paris Agreement, the concerns of Parties with economies most affected by the impacts of Response Measures, particularly developing Parties
- Parties should take into account the imperatives of just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities