TWN Bonn News Update 21

www.twnside.org.sg

Published by Third World Network

14 June 2011

Special Event on response measures warns against trade protectionism and "unjust transition"

Bonn, 14 June (Hilary Chiew) – Developing country Parties highlighted the distortion of international trade caused by some mitigation efforts of developed countries, cautioning that the impact of the use by some Annex I Parties of unilateral trade measures that are incompatible with World Trade Organisation (WTO) rules are already being felt and these could potentially diminish the prospects for development of developing countries.

These concerns were raised at a Special Event on the impact of the implementation of response measures (by Annex I parties to mitigate climate change) convened by the Chairs of the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice (SBSTA).

The Special Event was in the form of a kind of workshop. It was linked to and was to provide inputs to a forum on the impact of the implementation of response measures on developing countries. This was mandated by the Cancun decision, para 93. The forum (which will take place on 14 and 15 June) is to discuss a work programme to address the issue, and also discuss a "possible forum on response measures." Several developing countries called for the forum to be turned into a permanent one to address the serious economic and social consequences arising from response measures of developed countries.

Argentina on behalf of the Group of 77 and China said all developing countries face economic and social consequences in different ways.

Julia Hoppstock of Argentina said the forum should serve as a platform to promote understanding of the nature and magnitude of the consequences of response measures, help developing countries identify and address impacts, and share information and ways to minimise the negative consequences. She further said the forum should respect the principles and provisions of the Convention, respect the Bali Action Plan, implement paragraph 93 of the Cancun decisions and take account of developing countries' needs and concerns.

(Paragraph 93 refers to the decision of the Conference of Parties in Cancun "to provide a forum on the impact of the implementation of response measures, and to that end requests the Chairs of the SBSTA and SBI to convene such a forum at the current Bonn sessions of these bodies, with the objective of developing a work programme under the subsidiary bodies to address these impacts, with a view to adopting, at the seventeenth session of the Conference of the Parties in Durban, modalities for the operationalization of the work programme and a possible forum on response measures".)

Hoppstock also cited paragraph 89 of the Cancun decision which urges "developed country Parties to strive to implement policies and measures to respond to climate change in such a way as to avoid negative social and economic consequences for developing country Parties and to assist them by providing support, including financial resources, transfer of technology and capacity-building, to build up the resilience of societies and economies negatively affected by response measures".

On the modalities of the forum, she said it should be open to all, and should meet twice a year with the Subsidiary Bodies (SBI and SBSTA) which report back to the Conference of Parties on future work.

India in its presentation said trade measures can have a distorting effect on developing countries' economies. It pointed out that use of unilateral trade measures (UTMs) or border measures in the guise of environmental cases is to keep foreign competition out of their markets such as those encouraged by the US Clean Energy, and Security Acts.

It further noted that the use of UTMs violates the provisions under the Article 4.3, 4.5 and 4.7 of the UN Framework Convention on Climate Change.

India said the distorted effect on international trade and restriction on market access of developing countries can have adverse impacts on the economy and social development and poverty eradication programmes. Such effort to address climate change through UTMs will lead to tit-for-tat trade restrictions, spark trade wars and lead to retaliation by affected countries.

It also said WTO rules were created when climate change was not yet a big issue and that addressing climate change should not be an excuse for distortion, adding that, therefore, addressing technology transfer and financial assistance cannot be delinked from the discussion on response measures.

The Democratic Republic of Congo representing the African Group said it supported the need to further engage in discussion about the impact of response measures particularly on trade in the same light as impact of climate change in the context of adaptation.

It said there is no forum now to discuss this matter especially the impact on Africa and was sceptical that the matter could be brought to the WTO. It pointed out that the Doha Round (of ongoing WTO negotiations) has stalled and this issue will not be discussed by the WTO, adding that the WTO rules do not take account of measures in climate-related trade disputes. It said Parties should begin to talk of these risks to avoid the UNFCCC's outcome from clashing with trade rules.

The **Alliance of Small Island States (AOSIS)**, citing the example of the air passenger duty imposed by the United Kingdom, said a study by the Caribbean tourism organisation in December 2010 showed a decline in tourist arrivals from the UK as a result of the policy.

It said the forum is the central space to discuss impacts of response measures, adding that small island developing states are already faced with high adaptation costs and they are highly dependent on imports of fossil fuels and have constraints in switching to alternative energy sources. Further, their economies are also dependent on food import, tourism and international transportation for connectivity.

It said the work programme on response measures needs to assess the magnitude of the problem, and actions to minimise impacts through technology transfer and financing.

The Organisation of Petroleum Exporting Countries (OPEC) said its members are very vulnerable to response measures as most of them are dependent on oil exports.

(OPEC has 12 members: Algeria, Anglola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.)

Its environment coordinator M. Taeb listed several transmission channels of the impact, namely loss in export revenues, loss from shifting economies towards industries where they have less comparative advantage, reduced domestic demand for goods and services, and higher costs of imports. Other impacts include trade barriers, higher financing costs, social spill-over effects and highlighted that 45% of the populations are below 19-year-old.

A recent study showed that in an under 550ppm (parts per million of CO2-equivalent concentration in the atmosphere) scenario, the Group's export revenue per capita will be halved and GDP will be 23% lower in 2050. Under a 450ppm scenario, the effects will be even higher.

He pointed out that the issue of adverse effects from response measure to environmental problems had a 40-year-long history, beginning with the United Nations Conference on the Human Environment in Stockholm in 1972 to the UNFCCC but lamented the lack of progress in implementation.

He hoped the Cancun decision will lead to operationalisation of the Convention provisions under Article 4.8, 4.9 and 4.10.

He said the work programme among others should have a dialogue where Annex I countries present their reports and allow for exchange of views and experiences. He also stressed the need for a permanent forum on this matter.

Saudi Arabia outlined its request for a structural approach for the issue and that the mandate for the forum should include an interim forum, work programme, operationalising the programme and a permanent forum.

Its presenter and negotiator, Aysar Tayeb said elements to be included in the work include examination of the policies, examination of the impacts, reduction of impacts and building resilience. He called for bilateral and multilateral dialogues on findings by comparing the modelling results, if we are using different assumptions and baselines, and reporting on the dialogue and opportunity for exchange of views, because otherwise the findings are just hearsay.

He said economic and social impacts need to be examined and reminded developed country Parties that it is an obligation to ensure the policies are providing positive solutions and avoid biasness.

He stressed the short term and long term plans to build resilience of developing countries for adaptation and addressing the shock of loss and damage.

To take the work forward, Saudi Arabia would like a permanent forum to carry out the detailed work programme, producing COP decisions, assigning specific tasks to the subsidiary bodies, review progress of implementation and follow-up and updates.

It would also like the forum to meet four times a year and hold other events in providing a continuous venue for dialogue which should include the participation of experts, civil society and intergovernmental organisations.

Kuwait presented that 90% of its revenue is derived from oil and it accounts for 50% of the country's GDP. If faced limited options for economic diversification.

It said developing countries' oil producers are disproportionately affected and these vulnerabilities must be taken into consideration by developed countries when designing their mitigation action plans and that they should apply real effort in trying to reduce the negative effects.

It further said developed countries need to assist developing countries that are highly dependent on fossil fuels to diversify their economies and must demonstrate the results of this assistance.

Qatar said policy choices of developed countries must be those with win-win impacts. It expressed doubt that the European Union aviation directive could lead to emission reductions but that it has clear negative impact on all developing countries.

Venezuela underlined that balance is the key word and that fossil fuels will remain a basic source of energy and Parties have to tackle this issue and not cherry-pick the issue.

The European Union said for all its new policies, there were impact assessments on third countries, stakeholders' consultations including third parties with the double objectives of maximising positive effects and minimising negative ones.

For example, its directive on renewable energy takes into account the risk of adverse impacts of biofuels by development of sustainability criteria.

Regarding aviation emissions, it said that under the EU law, airlines must reduce their emission by 5% below 2005 by 2020 but about 100 aviation companies of developing countries are exempted from this law. On the inclusion of aviation into the EU Emission Trading Scheme, it said aviation is a significant sector and it is developing performance standards for the industry and if third countries implement equivalent measures, they too can be excluded.

In response to the EU's presentation that underscored that there are both positive and negative effects of the response measures, Saudi Arabia and China said the understanding of the forum is to deal with the negative aspects and to help developing countries.

China also questioned the extent of the EU stakeholders' consultation when implementing policies. It asked if the EU can improve on its consultation when it implemented policies with impact on trade and aviation where developing countries are the stakeholders. It noted that it is unfair to impose the same carbon duty on the Chinese air passengers whose emission per capita is far below that of the Americans and the Europeans.

It said China is very concerned by the trade measures especially Border Trade Adjustment as many factories will be forced to shut down and workers will lose their jobs.

Singapore shared similar concerns on use of trade measures; that Parties should not do anything under the UNFCCC that unbalanced WTO as it cannot rewrite or reinterpret WTO rules.

South Centre's Executive Director Martin Khor emphasised the measures that can be taken to assist developing countries affected by response measures. He clarified that developing countries are not asking Annex I Parties to restrain themselves in the volume of their response. Instead we want high ambition in response measures because lower response measures would mean lesser carbon space for developing countries, he said.

Khor further said if response measure cannot ensure minimal consequences, then Parties have to address this problem. For example, if response measures affect the many advantages of free trade, we have to deal with the losses. Already the United States is talking about protecting its citizenry who will lose their jobs.

He pointed out that measures such as removal of subsidies on fossil fuels is a major response measures as it will have vast implications on the economies of developing countries.

Khor said subsidies change in favour of climate-friendly products and technologies should be

designed in a way that also benefit developing countries such as avoiding monopoly effects while sharing the lower costs through affordability and assisting developing countries in subsidising their farmers and firms to go 'climate-friendly'.

He also cautioned against the use of standards and labels as trade protection measures and the need to assist developing countries to upgrade standards so that they can diversify into new products and technologies.

He further said that developed countries should avoid unilateral trade measures as far as possible and such measures should be discussed and agreed to internationally before they are implemented. He also pointed out that public campaigns such as 'food miles' may have good intentions but created negative social effects unless a just transition is implemented for farmers or workers in developing countries.

Among measures to assist developing countries to avoid or minimise the impacts of response measures, Khor said there should be compensatory financing schemes for countries facing external shocks or adjustment problems and providing affordable technologies for diversification in adding value to commodities and in upgrading their goods and services. Some of these financing schemes can be done through aid for trade and through the UNFCCC finance and technology mechanisms.

He also suggested review of relevant international regimes to make them supportive of assisting developing countries to diversify and meet the challenges towards a climate-friendly world environment.

The **International Labour Organisation** in its presentation stressed on just transition to address the risks of job and skill losses in greening economies.

It said 38% of the world workforce is in high-carbon sectors and they are relatively lower-skilled workers. Badly managed transition will lead to prolonged unemployment, permanent wage cuts and income inequality as green employment tend to have higher skill content. It noted that policies for just transition are available via well-designed labour markets and social policies, skill adaptation and upgrading, and social dialogue.

It also said it is inevitable that trade and climate change have to be discussed together as they are intimately linked and to find coherence on both fronts. If we link the sectoral policies well, we can have positive outcome, it said.

This special event heard presentations from AOSIS, the EU, G77 and China, OPEC, India, Kuwait, Qatar, Saudi Arabia and Venezuela, followed by six technical presentations from the consultant Cambridge Econometrics (commissioned by the UNFCCC), the International Maritime Organisation, South Centre, the International Labour Organisation, World Health Organisation and the International Centre for Trade and Sustainable Development.

The forum on this issue begins today, 14 June.