

Trade and Climate Change

A report by the WTO and UNEP



What is the current state of scientific knowledge on climate change?

To what extent will climate change have an impact on the economy?

How does trade affect greenhouse gas emissions?

In what way can trade opening help climate change mitigation and adaptation?

What is the range of national measures that can contribute to global mitigation efforts?



United Nations Environment Programme



WORLD TRADE
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Trade and Climate Change

Climate change is one of the greatest challenges facing the international community. Mitigating global warming and adapting to its consequences will require major economic investment and, above all, unequivocal determination on the part of all policy-makers.

This Report reviews how trade and climate change policies interact, and how they can be mutually **supportive**. The aim of the Report is to promote greater understanding and assist policy-makers in this complex policy area.

This publication uniquely examines the intersection between trade and climate change from four different but correlated perspectives: the science of climate change, economic aspects, multilateral efforts to tackle climate change, and national climate change **policies** and their trade effect.

The Report shows that trade intersects with climate change in a multitude of ways. In part, this is due to the innumerable implications that climate change may have, both in terms of its potential **impacts** and in terms of the profound regulatory and economic changes which will be required to mitigate and adapt to these impacts.

«With a challenge of this magnitude, multilateral cooperation is crucial, and a successful conclusion to the ongoing global negotiations on climate change would be the first step towards achieving sustainable development for future generations. As we march towards Copenhagen, we all have a responsibility to make a success of these negotiations. Climate change is not a problem that can afford to wait. It is a threat to future development, peace and prosperity that must be tackled with the greatest sense of urgency by the entire community of nations.»



Pascal Lamy, Director-General of the WTO, and Achim Steiner, Executive Director of UNEP

Photograph courtesy of IISD/Earth Negotiations Bulletin

Key elements of the Report

- **Greenhouse gas emissions generated by human activities have resulted in global warming.** This trend is projected to continue unless there are significant changes to current laws and policies.
- **Most sectors of the global economy are likely to be affected by climate change, and this will often have implications for trade.** Many of the sectors most affected, such as agriculture, forestry and fisheries, are critical for developing countries. Climate change is likely to alter the comparative advantage of these countries in such sectors, and thereby alter the pattern of international trade. Moreover, climate change is expected to have an impact on trade infrastructure and transportation routes.
- **Although trade has important implications for greenhouse gas emissions,** trade opening could facilitate the adoption of technologies that reduce the emission-intensity of goods and their production process and lead to a change in the mix of production from energy-intensive to less energy-intensive sectors. In this context, a successful conclusion of WTO negotiations on opening markets to environmental goods and services will help improve access to climate-friendly goods and technologies.
- **There is a wide range of policy measures available to governments to help reduce greenhouse gas emissions.** They are typically either regulatory measures (i.e. regulations and standards) or economic incentives (e.g. taxes, tradable permits, and subsidies).
- **The report reflects the debate on how industrial sectors may be affected by carbon-constraining domestic policies,** and in particular, by emission trading schemes. Policies aimed at preventing carbon leakage and at protecting competitiveness of energy-intensive industries are also being debated.
- **Current WTO rules provide flexibility for adopting national measures to mitigate climate change.** A number of WTO rules deal with many of the economic and regulatory instruments used by countries to mitigate climate change. However, the relevance of WTO rules to climate change mitigation policies, as well as the implications for trade and the environmental effectiveness of these measures will very much depend on how these policies are designed and the specific conditions for implementing them.
- **Addressing climate change represents one of the defining challenges of our time, and requires concerted action at both national and international level.** The debate on trade and climate change is taking place against the backdrop of vital multilateral climate change negotiations, which are due to come to a conclusion at the 15th Conference of the Parties to the United Nations Conference on Climate Change (UNFCCC) in December 2009 in Copenhagen, Denmark. A strong multilateral climate change agreement with binding commitments and supportive measures is the best way forward in establishing the framework for reducing greenhouse gases emissions from 2012 onwards.

What do we know about climate change? What is the relationship between trade and climate change? How does trade affect greenhouse gas emissions and can more open trade help to address climate change? What is the range of national measures that can contribute to global mitigation efforts? These are just some of the questions discussed by this report by the World Trade Organization and the United Nations Environment Programme.

The Report aims to improve understanding about the linkages between trade and climate change. It shows that trade intersects with climate change in a multitude of ways. For example, governments may introduce a variety of policies, such as regulatory measures and economic incentives, to address climate change. This complex web of measures may have an impact on international trade and the multilateral trading system.

The Report begins with a summary of the current state of scientific knowledge on climate change and on the options available for responding to the challenge of climate change. The scientific review is followed by a part on the economic aspects of the link between trade and climate change, and these two parts set the context for the subsequent parts of the Report, which look at the policies introduced at both the international and national level to address climate change.

The part on international policy responses to climate change describes multilateral efforts to reduce greenhouse gas emissions and to adapt to the effects of climate change, and also discusses the role of the current trade and environment negotiations in promoting trade in technologies that aim to mitigate climate change. The final part of the Report gives an overview of a range of national policies and measures that have been used in a number of countries to reduce greenhouse gas emissions and to increase energy efficiency. It presents key features in the design and implementation of these policies, in order to draw a clearer picture of their overall effect and potential impact on environmental protection, sustainable development and trade. It also gives, where appropriate, an overview of the WTO rules that may be relevant to such measures.

Further information:

Trade and Climate Change is jointly published by the World Trade Organization (WTO) and the United Nations Environment Programme (UNEP).

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