

G. Conclusion

Climate change is having a damaging effect on people, the environment and the economy globally. Major economic investment and ambitious policy actions will be required to steer the economy towards a sustainable, low-carbon growth trajectory, which is necessary to mitigate climate change and adapt to its disruptive and costly consequences. Thus, both climate change and climate policies will have significant consequences for international trade and trade policies.

Although the interlinkages between climate change and international trade are complex and multifaceted, much of the debate on climate change and trade is based on oversimplifications and misconceptions. Two basic but misleading assumptions still underlie much of the current debate: that trade clearly contributes to climate change; and that WTO rules prevent governments from adopting ambitious climate policies.

The first misleading assumption – that trade, and in particular international transportation, is one of the main contributors to climate change – has led to calls to limit imports in favour of producing and consuming goods and services locally. In reality, international trade affects greenhouse gas (GHG) emissions in many different ways. It is true that trade activities emit GHG emissions through the production, transportation, distribution and consumption of traded products, and, in this way, trade increases emissions by stimulating economic activity through increased income. Trade also affects the type of goods and services that each country produces, and can therefore affect climate change positively or negatively depending on whether a country has a comparative advantage in GHG emission-intensive sectors.

At the same time, however, trade contributes to the reduction of GHG emissions in several important ways. Trade provides access to low-carbon goods, services and technologies at lower prices. The increased income associated with trade openness can also lead to rising environmental awareness, as well as to more stringency in terms of environmental regulations, which spurs the incorporation of environmental technologies into production processes. Trade can help to diffuse environmental innovations, and provides firms with the opportunity to reap higher profits from integrating those innovations into production processes, thereby increasing their incentives to continue creating, diffusing and

integrating environmental technologies. In addition, trade in cleaner energy can further enable countries, including developing ones, with large endowments in renewable energy sources to lever their comparative advantage in clean energy generation and contribute to the low-carbon transition.

Trade can also help countries to protect themselves against, and adapt to, some of the consequences of climate change by helping to prevent, reduce and prepare for climate risks, as well as to respond to and recover from climate disasters. Recovery from climate disasters via the timely availability of critical goods and services, such as food, healthcare, transportation and communication, is enabled by trade. By helping countries to adjust to shifts in agricultural production caused by long-term changes in climate conditions, trade can also contribute to food security. Facilitated access to technologies that minimize some of the costs and the economic effects of climate change is also supported by trade.

The positive contribution of trade to the fight against climate change is, however, not necessarily automatic. Building economic and trade resilience to climate change requires an understanding of economic challenges and opportunities, as well as the ability to anticipate, evaluate and manage climate risks. Trade policies need to be integrated into climate adaptation strategies, including policies to enhance resilience of supply chains to climate-related disruptions. Similarly, giving producers and consumers incentives to factor climate risks into their decisions, so that they choose to limit or compensate their GHG emissions, requires relevant and well-designed climate and energy policies.

The second misleading assumption about trade and climate change is that WTO rules prevent governments from adopting ambitious climate policies. In reality, although the term “climate change” does not appear in WTO agreements, the WTO supports the fight against climate change by helping to ensure efficient and effective trade-related climate policies. While not all climate change policies have a trade dimension, WTO rules govern taxes, tariffs, support measures, regulatory measures and other trade-related instruments that are relevant for implementing climate policies.

Climate and trade regimes do not operate in isolation. For instance, the United Nations Framework Convention on Climate Change (UNFCCC) provides

that measures taken to combat climate change should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade, and should be implemented so as to minimize adverse effects, including on international trade, and social, environmental and economic impacts on other parties.

At the same time, the WTO framework contributes to the fight against climate change by supporting policies that create or expand positive cross-border spillover effects; for instance, climate measures adopted in one country may facilitate the diffusion of environmental technologies to other countries. WTO rules also help to limit the use of policies that can lead to trade tensions and cause income and welfare losses for other countries, and that thereby ultimately undermine efforts to tackle climate change.

Through its committees, the WTO provides a unique forum for members to discuss their efforts to mitigate and adapt to climate change, and the trade implications of those efforts. WTO transparency mechanisms, including the notification requirements for trade measures and periodic trade policy reviews for WTO members, provide information about climate-related trade measures. WTO technical assistance and capacity-building initiatives, including Aid for Trade, contributes to the efforts towards mobilizing investments in low-carbon and climate-resilient trade infrastructure.

The international trade of critical and environmental-friendly goods and services is enabled by the transparent and predictable trading environment underpinned by WTO rules, which also helps economies to diversify so that they are less reliant on single exporters and suppliers when an extreme weather event hits.

Nevertheless, while trade rules play an important role in climate mitigation and adaptation, the WTO can certainly do more to advance work on environmental and sustainability issues, including greater information-sharing and transparency in the context of trade-related climate change policies, and by addressing trade barriers to environmental goods and services. In that context, the ongoing WTO initiatives on trade and environmental sustainability, on sustainable trade in plastics and on fossil fuel subsidies reforms could lead to both pragmatic and creative results. The WTO could be an appropriate forum for discussions on opening up trade in environmental goods and services to further facilitate access to and diffusion of climate technologies. Strengthening cooperation between the WTO and regional and international climate organizations would further support understanding of the interlinkages between climate change and trade.

This report has underlined how international trade and trade rules can play a positive, constructive role in adapting to climate change and supporting a just transition to a low-carbon economy. Given the cross-cutting nature of climate change, trade and climate change policies need to be mutually supportive. This requires coordination, coherence and transparency.