

THE STATE OF PLAY ON BORDER CARBON ADJUSTMENTS, TRADE AND CLIMATE POLICY

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Policy motivations and perspectives on Border Carbon Adjustments

Policy Motivation	Importer Perspective	Exporter Perspective
Addressing Competitiveness	Energy intensive, trade exposed industries merit protection from producers in low-standard countries	Lower standards based on CBDR* are a justifiable comparative advantage
Reducing Emissions Leakage	Environmental effectiveness undermined if investments or supply chains shift to low-standard countries	Increased investments in lower standard countries consistent with right to development and CBDR
Leveraging Policy Change	Limiting market access a legitimate means of encouraging policy change in trading partners	Use of market power to coerce policy change inconsistent with respect for sovereignty and CBDR

*UNFCCC principle of common but differentiated responsibility and respective capability

A brief summary of a long history of climate and trade policy



- Chapter 1: UNFCCC and “mutual supportiveness”
- Chapter 2: Access to and Integrity of Carbon Markets
- Chapter 3: Concerns about Response Measures, from Oil to Food Miles
- Chapter 4: BCAs and Race to the Top in a Bottom Up World?
- Chapter 5: Bilateral trade disputes in a Vacuum
Multilateral diplomacy

Chapter 1: Mutual Supportiveness



The 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 country Parties**, thus enabling them better to address the problems of climate change. **Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.**

1992 UNFCCC, Article 3.5

Chapter 2: Integrity and Access to Carbon Markets



- Complementarity (“quantitative restrictions”) and the desire to encourage domestic action
- Additionality (“technical barriers to trade”) and the desire to ensure environmental integrity
- Exclusivity (“country of origin” distinctions) and the desire to create joining incentives
- Questions of whether offsets/allowances are goods and/or services under trade rules

Chapter 3: Trade Impacts of Response Measures



- Countries particularly dependent on fossil fuels (loss of market share through suppressed consumer demand)
- Food export dependent countries with regard to food miles schemes
- “Uncapped” countries with regard to BCAs
- The need for policies and for a forum other than WTO DSU

Chapter 4: BCAs in a Bottom Up World



- Articulating the policy objective (competitiveness, leakage, free riders)
- Identifying trade exposed carbon intensive industries
- Setting standards for “equivalence” and/or “comparability” in domestic measures in exporting countries
- Determining level of offsets required, on a product by product basis
- Providing carve outs for de minimis, developmental or political objectives

Chapter 5: Bilateral Trade Disputes in a Multilateral Vacuum



- US v China on wind and solar subsidies
- Japan, et al v Canada on feed-in tariffs with a domestic content requirement
- Canada v EU on eco-labeling of tar sands
- India, et al v EU on expansion of EU-ETS to cover arrivals and departures of international flights

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Conclusions: Policy relevant research agenda



- Policy relevant and responsive
- Explicitly principled but objective
- Multi-disciplinary
- Trans-Atlantic and North-South
- Well-connected to policymakers and stakeholders