

# *Trade Policy and Climate Change: Implications for India*

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# *Trade and Environment*

- ◆ Came to limelight in 1971 – concerns of trade
- ◆ 1994 Marrakesh Agreement: sustainable development recognised as one of the objectives
- ◆ Singapore – Seattle – Doha
  - Developed countries => trade measures necessary to protect environment
  - Developing countries => Trade will promote development and environment will be taken care of
- ◆ Development to impact local environment positively
  - Climate change – tragedy of commons?

# *Tale of Two Agreements*

- ◆ Marrakesh Agreement (WTO) and Kyoto Protocol can be termed the most important global agreements of the 20<sup>th</sup> Century
- ◆ WTO is a hard agreement but Kyoto is a soft one
- ◆ WTO has greater coverage (in terms of economic importance) though it has less number of members

# *WTO and Kyoto: Any Conflicts?*

- ◆ Kyoto has no trade measures but efforts to fulfil obligations can have implications
  - Allocation of emission rights
  - Carbon taxes and border-tax adjustment
  - Subsidies
  - Standards
  - Government procurement
- ◆ US environmental taxes on car withheld by WTO
- ◆ Carbon tax in some countries without border-tax adjustments
  - Can BTA be WTO compatible?

# *Trade reduces emissions?*

- ◆ Technology transfer through energy efficient goods and services
  - WTO agenda on liberalisation of environmental goods and services
- ◆ Change in trade volumes from liberalising clean energy technologies (World Bank 2007) in 18 high-GHG emitting countries

# *Trade reduces emissions?*

<b>Technology Option</b>	<b>% Change due to elimination of tariffs</b>
<b>Clean coal technology</b>	<b>3.6</b>
<b>Wind Power</b>	<b>12.6</b>
<b>Solar Power</b>	<b>6.4</b>
<b>Fluorescent Lamps</b>	<b>15.4</b>
<b>All 4</b>	<b>7.2</b>

# *Trade reduces emissions?*

- ◆ Potential is quite low as the products seem to be inelastic
- ◆ Low base (current imports) in developing countries
- ◆ Elasticity is lower in complex technologies (clean coal and solar)
- ◆ Long lists of environmental goods and services
  - Only a few have implications for climate change and problem of multiple use
  - No agreed definition
  - Even so called World Bank list is ad hoc
- ◆ Domestic policy more important than trade liberalisation

# *IPR and Technology transfer*

- ◆ Significant emission reduction can be achieved in developing countries by using existing technologies
- ◆ Technology transfer through trade is a slow process and relying on it can be costly as we are racing against time
- ◆ Technology diffusion is not sufficient even in the developed world
- ◆ The root problem is that these technologies are too costly for developing countries
- ◆ No WTO discussion on IPR/technology
- ◆ Can compulsory licensing help?



# *Trade and emissions - I*

- ◆ Trade involves transportation
- ◆ In the EU, emissions from all sources are more or less stable or falling, but in transportation sector it is increasing significantly
- ◆ EC also estimates, by 2020, emissions from shipping will be more than all other sources combined
- ◆ Is expansion and free flow of trade a big threat?
- ◆ Is it possible to restrict trade without restricting development?
- ◆ Intra-industry (pure) trade – avoidable trade?

## *Trade and emissions - II*

- ◆ Can we discourage imports when similar goods are abundantly available locally?
- ◆ Should we encourage trade only to expand ‘choice’?
- ◆ Subsidies in developed world can be a bad idea!! – promotes more energy intensive agriculture and more transportation
- ◆ The idea of ‘food mile’ - Is it fair? Can some developing country products be less carbon-intensive even after being airlifted to a developed country?

# *Border Tax Adjustment*

- ◆ **WTO is not clear but may not be too encouraging**
- ◆ **PPP (Process and production method) may be difficult - may not be fair as it may be producer specific – can you have different rates for different producers?**
- ◆ **UNFCCC also not in favour**
- ◆ **Legitimacy of BTA due to stalemate at UNFCCC?**
- ◆ **Can there be trade war? Developing countries operate at far below their bound tariff rates!!**

# *Non-tariff Climate Barriers*

- ◆ **EU talks about mandatory labelling – may not be WTO compatible**
- ◆ **Voluntary/private standards/labelling proliferating**
- ◆ **Some eco-labels already include emission factor**
- ◆ **WTO cannot do anything about it**

## *Implications for India*

- ◆ **India's share of energy-intensive goods in total exports is low, particularly in case of OECD countries**
- ◆ **Non-tariff barriers can be real concern – certification costs to be high, even if emissions could be low**
- ◆ **Pre-emptive move? Can India have carbon tax? There is substantial tax burden on some energy commodities!! Can that be considered as equivalence of efforts?**



*Thank You*