

# Climate & Trade: Can They Be Mutually Beneficial?

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Globalization has contrasting effects on climate: it speeds up the spreading of new, low carbon products and services while dedicating the mobilization of worldwide economic actors to planetary effort with this end in view. Conversely, governments have given up the idea of meaningful pricing for carbon emissions of the more emitting activities in order to limit competition discrepancies in our globalized world. However, price mechanisms are also the more efficient ones in promoting low-carbon solutions. How can we reconcile environmental challenges with the economic growth provided by free-trade?

From their inception, the International Chamber of Commerce (ICC), as well as its French national committee ICC-France, have been constant advocates of more open trade, given all the benefits free trade has brought about, boosting prosperity across the world in the past 30 years. During this expansion, the trade community has considered that even though the consequences of freer trade on the environment had to be taken into consideration, they were not important enough to stop the movement towards freer trade. The CETA agreement is a good example where climate is mentioned in a treaty, but only to say that bilateral consultations could be open should any problem arise.

In the context of climate urgency – that the summer of 2017 has brought again in the front news – it is high time to ask ourselves if this is sufficient, and if trade can be more positively contributive to the fight against climate change and to the world decarbonation along the emissions trajectory set by the Paris Agreement: trade cannot succeed around a planet that fails.

The effects of free trade on climate are indeed ambivalent:

- On the positive side, free trade accelerates the dissemination of the low-carbon solutions across the world, and the Environmental Goods and Services (EGAS) agreement negotiation is a positive track, if not easy, for trade to contribute to decarbonation.
- On the negative side, trade is creating growth and as such (as long as growth is not decoupled from emissions) it is increasing emissions; in addition, this growth is based on more goods transportation and increases the use of transportation fuel and associated emissions: the International Maritime Organization (IMO) expects

emissions from maritime transportation to reach close to 1,5 billion  $\text{teqCO}_2$  by 2020, equivalent to 3% of global emissions.

This is well-known. What is less understood is the indirect impact trade has on climate policies, and in particular on carbon pricing policies.

Carbon pricing policies are key if the world is indeed keen on implementing the Paris Agreement. All economists agree on this, even if the ways to create such price (carbon tax, cap and trade, bonus/malus, carbon dividend...) differ from one to another. The purpose of such carbon pricing is to make low-carbon solutions more competitive and to progressively take high-carbon solutions out of the markets; it is also to avoid rebound effects that increased energy efficiency usually tends to create. In all cases, carbon pricing is the result of a political decision by a government or by other policy-makers (European Union, California...); voluntary carbon pricing by business has been tried, but has so far failed to produce results at the level needed – at best, it is a good preparation for a real carbon pricing mechanism. Numerous studies provide ample solid evidence of the above.

This is why the Business Climate Summit of May 2015 has called, in its conclusive messages, for “*Clear, effective and predictable carbon pricing mechanisms and complementary economic signals to achieve global net emission reductions at the least economic costs*”<sup>(1)</sup>.

(1) Business Climate Summit 2015 conclusive messages: <http://www.businessclimatesummit.com/conclusive-messages/>

Because of its political nature, however, carbon pricing is created in a very heterogeneous manner across the world: about 13% of emissions only are covered by pricing mechanisms, prices vary from 1 to 15 \$/teqCO<sub>2</sub>, some emissions are covered meanwhile others are not. In some sectors, this diversity is likely to create real competition distortions: 100 \$/teqCO<sub>2</sub> would lead to an extra-cost of 200 \$/t steel, to be compared with a current international market price of 600 \$/t: no wonder no steel is submitted to such a carbon price!

**Business Climate Summit  
conclusive messages May 2015  
#2 – Carbon pricing**

Clear, effective and predictable carbon pricing mechanisms and complementary economic signals to achieve global net emission reductions at the least economic costs. Such mechanisms should be carefully designed and implemented to reduce competitive distortions in the most sensitive sectors.

The elimination of fossil fuel subsidies to redirect consumption to low carbon options.

Source: <http://www.businessclimatesummit.com/conclusive-messages/>

This is why the Business Climate Summit of May 2015 immediately added a sentence to the above recommendation: *Such mechanisms should be carefully designed and implemented to reduce competitive distortions in the most sensitive sectors.*

But no one has so far managed to design such a mechanism in a way that would be compatible with the current state of international trade agreements and the World Trade Organization (WTO) treaty.

This is it: the result of the distortion risk is that there is no carbon price of significance imposed on any ton of steel, or cement, or chemicals, or on refining... in the whole world. The EU Emission Trading Scheme (ETS) or the Californian market are giving free allowances to industries proportionate to their exposure to international competition. Other markets like China's have so far had low enough carbon prices for them not to create any significant distortion.

An obvious solution would be a border mechanism, by which imports should bear the same level of carbon price as locally manufactured products do. But so far, it has not been considered politically feasible by the international trade community in which many still seem to consider that such mechanisms would be obstacles to free trade, and therefore fear retaliation or WTO rulings against such border mechanisms.

Yet in the absence of such mechanism, the result is a very low carbon price on competition-sensitive goods, considered today too low for solutions like carbon capture storage or reuse to deserve more than R&D investment - or for new materials to merge as economical solutions. Even circular economy is today hampered by the absence of significant carbon pricing on emissions.

The question has remained open for many years now, and this for institutional reasons:

- United Nations Framework Convention on Climate Change (UNFCCC) is based on national agreement, and international trade is outside its scope (as are ICAO [International Civil Aviation Organization], IMO...); it is currently working on article 6 of the Paris Agreement which could create a minimum price in the world, but not resolve the above question and allow for meaningful carbon prices in some economies;
- WTO has no mandate to take care of climate, especially in the absence of a formal demand from its members, even if the Marrakech agreement which established WTO mentions explicitly the objective of sustainable development and the need to protect the environment<sup>(2)</sup>.

The result is worrisome. Carbon pricing is not picking up where it would be needed for low-carbon solutions to emerge and substitute high-emissions solutions. It is time to change something here, and this feeling is now widely shared. The Carbon Pricing Leadership Coalition is for example a public-private forum where carbon prices convergence across the world is demanded by industrial actors, simultaneously with carbon prices general increase.

Individual negotiations between one actor and its trade partners are of course technically possible, but they hardly tackle the issue. It would for example be long and difficult to renegotiate existing trade agreements if the European Union decided of a common floor carbon price across its territory, as promoted by the French President; still this would be required for such trade agreements (including CETA) to integrate the climate constraint and avoid the adverse consequences of such floor price on industry. A global solution would be much more preferable.

The G20 forum is a possible place to discuss the issue, as recommended by the B20 in the preparation for the 2017 G20 meeting in Hamburg. G20 could be a first instance before WTO. The preparation of the German G20 meeting in Berlin, July 2017, has been the occasion of international dialogue by the Energy, Climate and Resource Efficiency (ECRE) task-force of the B20 formed between business representatives from all sectors of the economy and all G20 countries. ICC has been a major actor of this thinking process, based on the positions prepared for COP22 in 2016<sup>(3)</sup>, even if the 2017 governmental discussion has not gone so far as to address the topic.

It is because the Paris Agreement on Climate Change was made in Paris that French actors are especially careful that it leads to real results. In the Business Climate Summits, for example, French business leaders are present to show commitment and strategic vision, including on this subject.

(2) Marrakech agreement: [https://www.wto.org/french/docs\\_f/legal\\_f/04-wto\\_f.htm](https://www.wto.org/french/docs_f/legal_f/04-wto_f.htm)

(3) See ICC Business positions on climate, and in particular on carbon pricing: [https://www.xing-events.com/eventResources/T/H/xZ9Tn2nIJ5XWuw/A5-ICC\\_Carbon\\_Pricing\\_Principles.pdf](https://www.xing-events.com/eventResources/T/H/xZ9Tn2nIJ5XWuw/A5-ICC_Carbon_Pricing_Principles.pdf)

## B20 recommendations to G20

“Recommendation10: Curtailing Climate Change

The G20 should curtail climate change by implementing the Paris Agreement, developing consistent and robust carbon pricing, as well as by fostering green finance.”

Detailed recommendations of the B20 Energy, Climate & Resource Efficiency (ECRE) Taskforce

*Policy Action 1.1: Implement the Paris Agreement [...]*

*Policy Action 1.2: Drive Carbon Pricing* – The G20 should establish an intergovernmental G20 Carbon Pricing Platform as a forum for strategic dialogue to create a basis for global GHG emissions pricing mechanisms, and to phase-out inefficient fossil fuel subsidies, using its revenues to finance an energy transition that benefits all.

- The G20 should use the G20 Carbon Pricing Platform to coordinate the support for the UNFCCC work on Article 6 of the Paris Agreement, with the aim of establishing operational rules and modalities for international carbon pricing mechanisms by 2019.
- Within this platform, the G20 should coordinate the phase out of inefficient fossil fuel subsidies by agreeing on a time line and commissioning an international organization with rationalizing subsidy data, monitoring and progress reporting.
- The G20 should use this platform to share best practices for the use of revenues from carbon pricing and for the re-direction of fossil fuel subsidies. In such, they should address the risk of carbon leakage and aim to ensure an energy transition that benefits all.

Source: [https://www.b20germany.org/fileadmin/user\\_upload/documents/B20/b20-summary-doc-en.pdf](https://www.b20germany.org/fileadmin/user_upload/documents/B20/b20-summary-doc-en.pdf)

Based on a proposal made by the ICC French national committee (ICC-France) jointly with Entreprises pour l'Environnement (EpE), an initiative is under consideration at

ICC global level to request the WTO executive team to propose avenues to get out of a situation which is putting us all at risk of not reaching the 2°C trajectory.