Center on Global Energy Policy at COLUMBIA | SIPA

INTERNATIONAL DIALOGUE ON CLIMATE AND TRADE
SINGAPORE WORKSHOP – DECEMBER 11-13, 2024

- TAKEAWAYS -

This workshop, the first of three regional workshops organized by GGEP and partners as part of the International Dialogue on Climate and Trade, was conducted under the Chatham House rule. This high-level readout is not meant to be a comprehensive summary of the workshop but serves rather as a distillation of salient information presented and views expressed, as input to the next stages of the Dialogue.

Context

- Trade is essential in facilitating climate action – there is no path to net zero without leveraging trade. However, trade and climate objectives are increasingly in tension as the use of economic levers such as green subsidies and border measures to drive climate action begins to alter countries' competitive positioning in ways that many developing countries believe unfairly disadvantages them.
- These climate-trade tensions arise against a global backdrop of increased trade fragmentation, fraying multilateralism, and rising geopolitical competition driven in part by economic and national security concerns.
- Countries are pursuing green industrial strategies to address a range of objectives including decarbonization, jobs and economic growth, competitiveness, and supply chain resilience. By speaking to the concerns of multiple constituencies, this "bundling" of priorities can help establish and sustain domestic political support for strong climate action.
- The nationally determined nature of countries' climate actions is a core precept of the Paris Agreement. At the same time, the accompanying heterogeneity in climate policy types, ambition, and timing will invariably produce or deepen asymmetries in climate-related trade.

The International Dialogue on Climate and Trade is an initiative of the Trade and Clean Energy Transition program, a collaboration of the Center on Global Energy Policy (CGEP) and the Institute of Global Politics (IGP) at Columbia University's School of International and Public Affairs (SIPA).

This workshop is organized in cooperation with:

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- Joint solutions that provide for a greater degree of cooperation, while respecting the nationally determined nature of climate action, can help to more equitably manage the intersection of climate and trade and better leverage trade for climate purposes.
- Many countries believe strongly that such approaches must align with the established multilateral rule-based order. The WTO and UNFCCC provide forums for exchanging and clarifying views, and potentially for identifying solutions. However, the WTO is hamstrung institutionally and politically, and progress in the UNFCCC hinges on consensus among 190+ countries, so neither is likely to produce tangible outcomes in the foreseeable future. Countries are establishing and looking to other forums to help devise cooperative solutions.
- The management of climate and trade must be considered alongside the urgent need for stronger investment in developing country decarbonization. Other countries' trade-related climate measures have the potential to raise costs for developing economies and to divert investment that otherwise could enable them to assume a stronger role in the net zero transition. Climate-aligned trade strategies could assist in addressing developing country investment needs.

Regional Context

- Closer coordination at the climate-trade interface can help ASEAN countries reduce the region's greenhouse gas emissions, attract green investment, strengthen resilience, and enhance the region's competitiveness.
- Key priorities include the ASEAN Power Grid initiative, which can support regional energy security and decarbonization, and initiatives to leverage critical mineral reserves to establish a lead globally in rapidly growing clean technology sectors.
- Key challenges include heterogeneous regulatory frameworks and inadequate finance for clean technology development and deployment.

Emerging Approaches

- Countries are pursuing a range of initiatives in bilateral and plurilateral settings to strengthen collective understanding, explore options, and develop solutions at the intersection of climate and trade. These initiatives vary in character and intent, suggesting a possible hierarchy or progression of such efforts.
    - At the bilateral level, the Australia-Singapore Green Economy Agreement establishes a framework for enhanced cooperation to reduce barriers to, and facilitate the growth of, green sectors, with the aim of concrete joint projects in several priority areas. Such efforts can help establish norms and "new habits" of cooperation.
    - At the plurilateral level, the OECD's Inclusive Forum for Carbon Mitigation Approaches is undertaking technical analysis that can provide a stronger foundation for cooperative approaches, including a detailed examination of carbon intensity metrics to enable comparability across jurisdictions.
    - Also at the plurilateral level, the Climate Club launched by the G7 provides a forum for policy dialogue, including at leader level, with a strong focus on reducing carbon leakage and strengthening positive cross-border spillover effects.

- The Agreement on Climate Change, Trade and Sustainability (ACCTS), while at this stage engaging only a handful of countries, goes beyond these efforts by establishing enforceable commitments – for instance, to eliminate tariffs on a broad range of green goods and phase out fossil fuel subsidies.
- The negotiating process underscored the importance of quality data in aligning efforts. ACCTS's open plurilateral architecture, which enables other countries to join, may serve as a working model for similar agreements.

The Role of Green Subsidies

- Climate-related subsidies are a central element of new green industrial policies, most prominently in China, the European Union, and the United States. Policy drivers include decarbonization, jobs and competitiveness, building strategic industries, and supply chain resilience. Beyond potential domestic benefits, green subsidies can have positive cross-border spillover effects by lowering the cost of clean technologies broadly.
- However, to the degree they introduce trade distortions and strengthen the competitive positioning of the countries deploying them, the widening use of green subsidies may have significant equity implications. It can further disadvantage developing countries, lacking the fiscal capacity to compete on subsidies, in the net zero marketplace.
- The WTO's Agreement Subsidies and Countervailing Measures (SCM) is not well-suited to managing the emerging conflicts; it focuses solely on the trade effects of subsidies and allows no exceptions or balancing for climate or sustainability purposes. Emerging subsidy practices are in tension – and, in their use of local content requirements (LCRs), in evident conflict – with SCM rules. This widening gap between national policies and multilateral trade rules appears likely to trigger WTO litigation and the use of countervailing duties (CVDs). This risks further fragmenting trade and slowing the net zero transition.
- Cooperative approaches among smaller groups of countries could help chart pathways balancing the climate benefits of green subsidies with other priorities, including equitable trade and global cooperation. An obstacle to closer cooperation is a lack of transparency and data on green subsidies and their impacts – information needed to develop agreed sustainability standards for subsidies.
- Cooperative approaches could include non-binding guidelines or best practices for green subsidies; some form of proportionality assessment weighing climate benefits and trade impacts; a process to develop sustainability standards; flexibilities such as LCR exemptions LDCs; and/or mechanisms to address supply chain concentration. Another option, a "peace clause" temporarily suspending WTO challenges and CVDs for green subsidies, could sustain rather than address the equity concerns of developing countries.

The Role of Carbon Border Measures

- A number of developed countries are implementing or contemplating some form of carbon border measure with the aims of avoiding carbon "leakage," enhancing the competitiveness of their domestic industries, and/or incentivizing global climate action.
- The EU Carbon Border Adjustment Mechanism (CBAM), the furthest advanced of these measures, is prompting other countries to consider establishing border measures of their own.

Some in developing countries, both in governments and in the private sector, acknowledge that CBAM is adding incentive for carbon pricing (in part, to ensure that any carbon fees assessed are retained domestically) and for industry decarbonization. The EU intends some recalibration of CBAM to, in particular, ease compliance on exporting firms.

- Unilateral carbon border measures or tariffs are broadly opposed by major emerging economies as protectionist, inequitable, and in conflict with WTO rules, the equity principles of the UNFCCC, and the nationally determined nature of countries' climate contributions under the Paris Agreement.
- An emerging patchwork of disparate border measures, and the retaliatory steps that may ensue, could further fragment global trade, raise costs for business, pose new uncertainties for long-term investment, and hinder the flow of clean technology. A more coordinated approach could seek to maximize the climate benefits of border measures while addressing the equity concerns of developing countries and helping to facilitate climate-aligned trade.
- Work underway by governments, intergovernmental bodies, and others can help improve data on the greenhouse gas intensity of traded goods and translate across differing methodologies for measuring and verifying emissions. This work can provide a technical foundation for "interoperability" among potential border measures.
- Additional approaches could include:
    - An agreed "code of conduct" establishing parameters for countries' design and application of carbon border measures.
    - Partnerships with – or the recycling of carbon tariff revenue to – exporting developing countries to support industry decarbonization.
    - "De minimis" standards to exempt lower-income/low-export countries and or small and medium enterprises.
    - Some form of "mutual recognition" of countries' respective price-based and non-priced-based measures, in respect of national determination of mitigation measures.

<u>Non-Tariff Measures/Standards</u>

- The proliferation of differing sustainability standards and other types of non-tariff mitigation measures can impede trade and cross-border cooperation serving mutual climate and development objectives. Further work is needed to improve mutual understanding of differing standards and the methodologies behind them.
- Progress is being made in the development of emissions or sustainability standards for carbon-intensive sectors. Examples include the near-zero standards developed for use by First Movers Coalition, the Climate Club's endorsement of the IEA's green steel and green cement standards, the Steel Climate Standard, and related work by the ISO.
- Options for cooperative approaches to better facilitate climate-aligned trade include agreed methodologies for reconciling non-harmonized standards or the adoption by governments of common sectoral sustainability standards.

<u>Principles</u>

- The WTO, the UNFCCC and other multilateral and plurilateral agreements establish a range of relevant principles that inform countries' perspectives on how best to balance competing objectives at the intersection of climate and trade. However, principles arising from different fora are in some cases at odds, and countries diverge in both their understanding of particular principles and the relative weight they assign them.

- The report of TESS's International Legal Expert Group on Trade-Related Climate Measures and Policies highlights, in particular, established principles addressing sovereignty; prevention; cooperation; prohibition of arbitrary and unjustifiable discrimination; sustainable development, equity, and common but differentiated responsibilities and respective capabilities; and transparency and consultation.
- The recent G20 Principles on Trade and Sustainable Development do not directly invoke the WTO, UNFCCC, or other agreements, but rather reflect a negotiated synthesis, and to some degree refinement, of relevant guiding principles. In addition to some cited by the TESS Expert Group, the G20 Principles include the right to regulate, coherence (with relevant international agreements), science and evidence based, and fair, just and inclusive transitions.
- Beyond stronger alignment on guiding principles, the ultimate challenge will be in devising arrangements that can apply them in practice.