

PECC FTAAP PROJECT

Proposed Outline of NZPECC Input on
Trade and Climate Change
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A photograph of an industrial facility, likely a power plant or refinery, with several tall smokestacks emitting thick plumes of dark smoke. The scene is set against a bright orange and yellow sunset sky. The image is partially obscured by a large white circular graphic element on the right side of the slide.

Climate Change the Existential Threat of Our Age

- GHG emissions have more than quadrupled since 1948
- Paris Convention members goal of limiting 2050 temperature increase to no more than 2 degrees (and if possible 1.5 degrees)
- Most members have zero emissions targets for 2050 or 2060
- Will require considerable international cooperation and massive innovation

APEC Members Have Sought to Make Trading System More Supportive of Climate Action

Moving	Moving beyond scoping reports on trade in environmental goods and services to strategies for reducing the trade barriers;
Expanding	Expanding work on customs supply chain predictability and connectivity, particularly in the area of digitisation of customs processes;
Seeking	Seeking to develop concrete standstill and roll-back commitments/goals on fossil fuel subsidies;
Initiating	Initiating work in such areas as standards and investment policies to promote supply chain decarbonization.

but key
challenges lie
ahead

Climate change the result of market failure/externalities/misuse of public goods

In particular resources have not been priced at their value to society and resource users have not paid for the costs of their emissions

Will require a mix of carbon price (ETS/cap and trade), tax and subsidy policies as well as other incentives

Has significant implications for the trading system

CARBON LEAKAGE

- Concept refers to situation where tighter emissions regulations in one jurisdiction will lead to redistribution of production to other countries
- EU has established a carbon border adjustment mechanism (CBAM) for a limited number of industries
- Goals of CBAM are valid and carbon leakage likely to become a wider issue
- But recent ABAC work shows that EU scheme has WTO challenges as well as implications for supply chains and trade and investment flows
- Particularly unpopular with developing economies and could have geopolitical implications



TARIFF/NTB ESCALATION

Many industries in developed countries are characterised by significant escalation of tariffs and NTBs, particularly those with emissions intensive inputs;

Seems to occur because upstream industries not only lobby for protection in their domestic markets but also cheaper domestic inputs;

Joseph Shapiro has estimated the global implicit subsidy this creates at \$550 to \$800 billion a year, on a par with (explicit) fossil fuel subsidies

Removal of tariff/ntb escalation would have significantly positive effects on emissions, create opportunities for developing economies and render mechanisms such as CBAMs unnecessary.

SUBSIDIES

- Significantly stricter global disciplines on fossil fuel, agriculture and fisheries are now urgent to promote enhanced climate as well as trade outcomes
- World bank estimates explicit fossil fuel subsidies alone at \$577 billion a year while explicit subsidies to all three sectors total \$1.2 trillion
- However implicit subsidies are likely a much greater problem. World Bank estimates these at \$5.4 trillion a year or 6% of global GDP. Has implications for PECC members previously taking an “offensive” position on subsidies (such as Australia and New Zealand);
- Conversely, WTO Subsidies Agreement may be impeding the ability of governments to fund development of clean technologies as well as technology transfer to other countries



OTHER ISSUES

- Regulation and standards – for technology transfer, global accounting standards and traceability
- Intellectual property – IP rights needed for development of new clean technologies but covid showed that they may also impede rapid deployment, particularly in developing countries
- Government procurement – international commitments may impede ability of governments to favour clean technologies



IMPLICATIONS FOR FTAAP

- APEC members will increasingly want to ensure a future FTAAP will support rather than inhibit efforts to combat climate change
- APEC an ideal forum to tease out the issues involved
- Approaches climate clubs/ETSs unlikely to succeed as many jurisdictions can or will not adopt an ETS
- Likely that any approach will ultimately involve a system of mutual recognition
- There will have to be special and differentiated provisions for developing countries

