

Major Economies Business Forum

on Energy Security and Climate Change

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Major Economies Business Forum: Trade, Investment & Competitiveness

KEY MESSAGES

- Efforts to mitigate and adapt to climate change and the differences in climate policies and goals from country to country alter the existing commercial landscape in ways that have direct and indirect implications for trade, investment, and competitiveness.
- Applying a price on GHG emissions has competitiveness implications:
 - domestically, for energy sources and carbon-intensive products and services, and agriculture; and
 - internationally, for imports and exports between nations with differing policies and stringency of controls.
- Small changes can have large consequences, especially for commodity goods.
- Pressures on trade and competitiveness also may occur when governments seek to provide relief to favored domestic activities that is at odds with existing trade agreements.

- Besides the direct impact of a price on GHG emissions, policies and procedures can have indirect impacts on trade and competitiveness, including:
 - incurring new obligations for reporting and supply chain management;
 - transferring wealth selectively to energy-intensive firms in developing nations; and
 - altering existing intellectual property rights under non-commercial terms.
- Nationally Appropriate Mitigation Actions (NAMAs), sectoral approaches, and other options must be designed to provide incentives that can be acted upon directly by firms and to avoid competitiveness issues.
- Successful global deployment of advanced mitigation technologies depends on protecting and expanding the opportunities for free trade and investment.
- BizMEF believes the proper way to address trade and investment concerns is through a comprehensive agreement that is consistent with existing trade agreements.
- The World Trade Organization (WTO) and its established judicial processes are the proper venues for resolving trade disputes arising from climate change related policies rather than new processes developed under the UN Framework Convention on Climate Change (UNFCCC).

INTRODUCTION

Efforts to mitigate greenhouse gas (GHG) emissions and adapt to climate change will alter the existing commercial landscape in ways that have direct and indirect implications for trade, investment, and competitiveness. Different political environments and different national climate change goals and policies affect each economy differently, and have individual implications on international trade, investment, and competitiveness. Obviously, prices on carbon dioxide and other greenhouse gas emissions have implications for cost and choice of possible energy supplies. Other proposals and steps that may affect trade and competitiveness include labeling and supply chain management, wealth transfers to support mitigation and adaptation, and potential restrictions on intellectual property rights. In turn, efforts of domestic legislators and regulators to provide relief for favored industries and their employees may also have important consequences for trade and investment extending to areas beyond strictly climate change.

This paper provides business perspectives and views on these issues. In particular, the international business community recognizes that addressing the risks of climate change will require a long-term commitment to innovation, leading to the development and use of currently non-commercial technologies on a global scale. Long-term success of such efforts will depend on protecting and expanding the opportunities for free trade and investment.

PERSPECTIVES ON CLIMATE POLICIES & APPROACHES WITH IMPLICATIONS FOR COMPETITIVENESS & TRADE

Domestic policies that control GHG emissions create circumstances that alter the competitiveness of industries that are energy intense, including especially those that produce and transform energy resources to power and fuels, and other industrial and agricultural activities that are major emitters of GHGs. Changes in costs need not be large relative to the price of goods and services to have important consequences for competitiveness. Significant impacts occur when the differential costs, for example on emissions from production or use of various fuels, alter the relative price of goods and services at a level that is material with respect to the profit margins of competing firms. Small changes can have large consequences, especially for suppliers of commodity goods.

Besides negative impacts on competitiveness, shifts in investment and operations can lead to “carbon leakage” that is counter-productive to achieving environmental objectives and inhibits investment in yet better and more efficient technologies. Thus, the lack of free trade and level playing field can slow innovation and detract from environmental effectiveness.

Pressures may occur that affect competitiveness domestically (within and across sectors, *e.g.* suppliers and users of gas, oil, coal, and renewables), as well as internationally through trade by altering competition among imports and exports to and from nations with differing policies.

Relative changes in costs impact not only on companies, but also their direct employees, supply chains, and, through them, the communities in which they operate.

Pressures also occur when governments seek to provide relief for favored domestic activities. Proposals include border adjustments on imports and rebates from controls for exports. Since existing trade agreements provide no exceptions to address competitiveness per se, such practices may be challenged, or lead to broad reprisals on trade by nations whose exports are threatened. Such measures are unlikely to resolve competitiveness challenges and carbon leakage and will almost certainly undermine climate co-operation. For example, the recent European Union policy to impose unilaterally fees on emissions from international flights has led to push back from many of its trading partners.

Aside from the direct impact of prices on GHG emissions, other policies and proposals can have indirect impacts on competitiveness and trade. In the context of climate change these include:

- procedures that may impose new obligations for reporting and supply chain management;
- aid and wealth transfers that selectively reward energy-intensive firms in developing nations; and
- proposals to alter existing intellectual property rights under non-commercial terms.

TRADE IN THE UNFCCC AND KYOTO PROTOCOL

Both the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol recognize that efforts to limit GHG emissions could pose challenges to trade. They explicitly call on developed nations to implement their commitments in ways that limit adverse impacts on developing nations (see UNFCCC §3.5, §4.8 and Kyoto Protocol §2.3). However, neither instrument makes clear how such situations should be handled.

IMPLICATIONS OF NAMAS & NEW OFFSET MECHANISMS

Discussions on a post-2012 framework hold out the possibility of fresh approaches to mitigation, including NAMAs and new market and international offset mechanisms, including in particular, policies based on sectoral approaches. Business believes that NAMAs and sectoral approaches have potential. Their ultimate usefulness, however, would depend on how they were structured to account for the different circumstances in which firms and sectors operate in different nations. While sectoral approaches have been advanced specifically with an intention to minimize competitiveness concerns, as usual, the devil is in the details.

In the modern global economy, many firms within and among sectors compete in domestic and international markets. To avoid competitiveness concerns, NAMAs and new market and international offset mechanisms will need to be designed so that individual firms can compete on a level

playing field and assess their own individual incentives to invest in mitigation. In some proposals for *sectoral crediting*, tradable credits would become available only when a national sector as a whole surpasses a predetermined target. Under these circumstances, it is not clear how individual firms would pre-determine their individual incentives for action. For example, a firm that made an exceptional and otherwise appropriate investment may achieve no benefit, if the sector as whole fails its target. In proposals for sectoral trading the incentive for firms will depend on national procedures to allocate allowances.

In all cases, the relative impact of national sectoral targets on firms that compete internationally will depend on the relative difficulty of a firm achieving its target compared with targets of competing firms both in the host nation and those located in other nations. This observation raises a challenging concern regarding the basis for setting equitable national targets in, perhaps, dozens of nations and for several energy-intense sectors, *e.g.* for equitably establishing hundreds of agreements that have the potential to affect competitiveness. The outcome of setting such targets would affect investment decisions in thousands of firms around the globe. In turn, such design criteria will affect not only affect those energy-intense firms with targets, but also other businesses that rely on their products or provide them with goods and services through supply chains.

BIZMEF VIEWS ON TRADE & COMPETITIVENESS

Addressing the threats of climate change requires a long-term commitment to innovation, leading to the development and deployment on a global scale of currently non-commercial technologies. Business will be the major actor in making this happen through research, development, commercialization, and widespread dissemination of new technologies, products, processes, and services.

Such efforts imply the need for significant enhancement in trade, even to implement the required investments in capital equipment and infrastructure that in turn will lead to additional trade involving new products and services. Estimates by the International Energy Agency, the Massachusetts Institute of Technology (MIT), and others indicate that the scale of these activities could require a doubling of investment in technologies and infrastructure for energy supply, with significant increases in international wealth transfers. For example, in 2008 MIT estimated that achieving the aspirational goal of stabilizing GHG concentrations at 450 parts per million carbon dioxide equivalents under terms of the Bali Mandate would require additional wealth transfers of over \$400 billion per year by 2020 and over \$3 trillion per year by 2050.¹

Providing such massive and steadily increasing wealth transfers over time would require the sustained support of both donor and recipient nations. For this reason, business believes that wealth transfer should be directed to activities in

¹ All dollars figures in USD.

developing nations where eligibility for funding is open to any qualified provider. In particular, it should not be channeled automatically to domestic, especially state-run, enterprises.

To address competitiveness concerns, potential new market mechanisms must be designed in a way that provides incentives directly to individual firms that must make investment decisions (not to entire sectors), and must account for the need for targets to be equitable across all participating nations and sectors. Because national circumstances, and even the role of sectors within nations, vary so greatly, these pose significant technical and political challenges.

These considerations lead us to the following business views:

- Implementing and maintaining efforts to develop and deploy advanced efficient and lower-emitting technologies will require major efforts by business, especially those capable of advanced R&D.
- Incentivizing R&D and deployment by the private sector on this scale will require maintaining:
 - strong IPR protection;

- strengthening and expanding opportunities for free trade and investment; and
- support from both donor and recipient nations.
- It is imperative that any climate policies, domestic or international, provide and ensure a level playing field for business and commercial activities.
- International wealth transfers should be designed to support activities in developing nations rather than transferred directly to recipient governments.
- Possible new post-2012 mitigation options offer potential but must be designed with care to provide incentives that can be acted upon directly by individual firms and avoid competitiveness issues.
- Trade and competitiveness concerns are real and should be addressed explicitly and resolved as part of a comprehensive agreement among all nations.
- WTO and its established judicial processes are the proper venues for resolving trade disputes arising from climate change related policies rather than new processes developed under the UNFCCC.

Australian Chamber of Commerce and Industry
BUSINESSEUROPE

BusinessNZ

Canadian Council of Chief Executives

Confederation of Indian Industry

Confindustria

Dansk Industri

Federation of German Industries – BDI

Iniciativa para el Desarrollo Ambiental y Sostenible S.C. – IDEAS (Mexico)

Mouvement des Entreprises de France

National Confederation of Industry (Brazil)
Nippon Keidanren (Japan Business Federation)
Turkish Industry and Business Association (TUSIAD)
U.S. Chamber of Commerce, Institute for 21st Century Energy
U.S. Council for International Business

ABOUT BizMEF

The Major Economies Business Forum on Energy Security and Climate Change (BizMEF) is a partnership of major multi-sectoral business organizations from major economies. Modeled after the government-to-government Major Economies Forum, BizMEF is a platform for these groups to:

- promote dialogue and exchange views on climate change and energy security across a broad spectrum of business interests including major developed, emerging, and developing economies;
- highlight areas of agreement among participating organizations on the most important issues for business in international climate change policy forums; and
- share these views with governments, international bodies, other business organizations, the press, and the public.

Organizations that have participated in BizMEF meetings represent business groups in Australia, Brazil, Canada, China, the European Union, Denmark, France, Germany, India, Italy, Japan, Mexico, New Zealand, South Korea, Turkey, the United Kingdom, and the United States. Collectively, BizMEF organizations represent more than 25 million businesses of every size and sector. Because BizMEF partnering organizations represent a broad range of companies and industries—including energy producing and consuming companies as well as energy technology and service providers—the partnership is able to provide robust and balanced views on a range of issues.

For more information on BizMEF, please visit our website at:

www.majoreconomiesbusinessforum.org.