

Multi-Stakeholder Dialogue V

Trade and Climate Change: Confrontation or Collaboration?

*IMD, Lausanne
3 – 5 October 2008*

The Evian Group, in collaboration with the Friedrich-Ebert-Stiftung, convened for the fifth time a Multi-Stakeholder Dialogue from the 3rd to the 5th of October at IMD. It included 60 academics, WTO negotiators, entrepreneurs and civil society representatives from the North and South. This year's dialogue focused on the interlinkages between Trade and Climate Change. The aim of the meeting was to review the dysfunctions of our global governance mechanisms and assess the organisational structures to deal with adaptation and mitigation. This includes finance, technology, standards, the management of forests and carbon trading. A strong emphasis was laid on the important role of international trade and public private partnerships in this process. Climate change and economic development are intrinsically linked and undoubtedly represent the most important challenges of the 21st century.

The Dialogue was held in the backdrop of a severe banking crisis, which was a reminder, if needed, that market failures left unattended for too long become extremely expensive to fix. While many managers will understandably be worried about the economic sustainability of their businesses in the present volatility, the environmental sustainability of their operations remains just as vital. The multilateral political process on re-mapping the Kyoto Protocol at UNFCCC Copenhagen summit in 2009 will lead to heavier consequences on all areas of production and consumption. With the hard science of harmful anthropogenic intrusion into climate patterns commonly accepted, economics now lies at the heart of climate negotiations. A general consensus has emerged that adaptation and mitigation will come at a cost and that there is going to be a fundamental transformation in the way we source, produce, fuel and transport our goods.

There is a central injustice to the climate change conundrum in that developing countries find themselves locked in a situation that is not of their making. Yet this remains a truly global problem that can only be resolved if all the major carbon emitters – namely the United States, the European Union, India and China – are on board. For this reason the cornerstone principle of “common but differentiated responsibilities and respective capabilities” underlies the convention on climate change so as to infuse incentive structures to participate in the difficult negotiations ahead. The repeated setbacks of the WTO Doha Round negotiations offers a stark lesson of the need for fairness and flexibility in order to garner the sort of trust that will define the nature of involvement in the process. The pressures to conclude successfully Copenhagen will be greater than Doha but the adjustments to cut emissions per unit of output, alter our energy patterns, and de-carbonise our economies will be deeper.

A large part of this story is technology and finance both for mitigation and adaptation. Given the speed and scale embedded in reaching our targets for carbon emissions – a 50% reduction at the global level by 2050 – it is recognised that the market rate of diffusion of technologies will not match the required rate of diffusion. The present financial crisis will not make fundraising and investment any easier. Private firms will provide solutions in terms of energy efficiency and the commercial development of new technologies but there is little room for incrementalism. Public private partnerships are going to have to be put together as are the institutional and regulatory environments that create the appropriate incentive structures for the private sector. The increasingly blatantly obvious error that was made in bio-fuels offers an illustration of the difficulties this implies. The shortfalls of carbon trading under the Kyoto Protocol Clean Development Mechanism are also a reminder of the complexities involved in pricing the greenhouse gas externality.

A clear responsibility befalls on rich countries to demonstrate the mechanics of low-carbon growth and to share the technology that makes this possible once institutional arrangements have been found. This implies not only radical experimentation – as in carbon capture and storage – but also identifying where barriers hinder technological transfer. The IPCC has recognised that intellectual property rights in green technology are clearly an issue that needs to be better understood through patent landscaping. In certain areas there are competitive dynamics that probably need to be assessed at the sectoral level and in others compulsory licensing may be required. The proposals to introduce border adjustment costs must also be scrutinised very carefully as they could represent little more than a form of protectionism that could deprive many developing countries of the finance required for adaptation and mitigation policies. While certain carbon leakage and competitiveness concerns are legitimate in a number of carbon-intensive manufacturing industries, it would appear that sectoral agreements are set to become an important component – and possible source of discord – of the Copenhagen process. All of these issues need to be discussed in an informed manner now with all the stakeholders involved.

It is important to remember when looking at 2050 that it is essentially the developing world we are talking about: eight billion out of the projected nine billion global population will be living in these countries and they will be the hardest hit if we continue along the present path of carbon emissions. The disruption of our climate system is a problem most emerging economies, including India and China, are taking very seriously as manifest in the G-77 group of developing countries proposal that an international financing mechanism be established under the climate convention. Development will be the prime vehicle of adaptation as climate change is gradually mainstreamed into the entire growth dynamics. As Nicholas Stern underlines, leadership for a global deal on climate change lies essentially with the developing world. By far the most important accord in the short term will be that between the two greatest polluters at a national level: China and the United States.

One of the key understandings to emerge from the Multi-Stakeholder Dialogue is that we need to change the narrative in order to manage cooperatively the complexities and trade-offs at play. Unless we move beyond the current binary schisms between North and South on the one hand, and climate change versus economic development on the other, we run the risk of “doing another Doha”; namely standing still while the world moves at reckless speed. The focus must be on getting the message across in a constructive manner while conveying the immediacy of the challenge. The risks and high probability impacts related to excessive and rapid temperature rises are far too ominous not to be confronted with a sense of optimism and shared destiny.

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