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From Geneva to Copenhagen – What does the World Trade Conference have to do with the World Climate Conference?

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From Geneva to Copenhagen – What does the World Trade Conference have to do with the World Climate Conference?

Bonn, 14 December 2009. The world is looking to Copenhagen in these days, while two weeks ago as good as nothing was to be heard from Geneva, which hosted the World Trade Organization's (WTO) 7th Ministerial Conference (see *The Current Column* by Clara Brandi, 7 December 2009). Is trade policy being crowded out, perhaps even wholly supplanted, by climate policy, as many an environmental activist may already furtively hope? Looked at in terms of media coverage, this would certainly appear to be the case, and the current financial and economic crisis seems to be filling the sails of the more notorious critics of globalisation. With even heads of the world's governments and central banks succumbing to the appeal of the idea that gave birth to ATTAC, namely a (Tobin-style) tax on international financial transactions, what objections could there possibly be to safeguarding the world climate by green protectionism? Or has the time finally come to give short shrift to capitalism itself that has, with its compulsive drive to grow, got us into the present mess in the first place? (See *The Current Column* by Lars Schmidt and Pierrre Ibisch, 30 November 2009).

In the wake of the 2008 financial crisis, a worldwide consensus seems to be emerging that the financial sector needs to be more effectively regulated, if not indeed trimmed back down to size, in order to prevent the outbreak of new financial crises which could have even more dire consequences for jobs and the real economy. In view of the fact that the financial sector is taking the opportunities offered by globalisation to engage not only in socially useful financial transfers but at the same time in tax evasion and money laundering, the time seems ripe to more effectively control, and even to tax, international financial transactions. But while the financial crisis may call for efforts to restrict a footloose financial sector's international mobility, the opposite holds true for the real economy. To overcome the world economic crisis it is imperative to liberalise trade, help the real economy escape the credit crunch and forge ahead with its international business activities.

The experiences of the 1930s show, quite unmistakably, that the financial crisis at that time was exacerbated by national attempts to pass on the impacts of the crisis to other countries by steadily raising customs tariffs and devaluing national currencies. That course ultimately ended in a total collapse of world trade and a stubborn and protracted economic depression, fuelling mass unemployment in Germany that ultimately led to the rise to power of the National Socialists and the outbreak of Wold War II. The depression was finally overcome by the arms race before and during the Second World War which might be termed, perhaps somewhat cynically, an internationally coordinated economic stimulus programme. For the time following the war it was thought necessary to take steps to prevent any relapse into the trade and currency wars of the 1930s. It was to this end that, in 1944, in Bretton Woods, NH, an International Monetary Fund (IMF) and a World Bank were founded and the first steps were taken on the road to a General Agreement on Tariffs and Trade (GATT).

As critically as we may view the many shortcomings of the post-war world economic order, it has proven its worth in all of the crises that have emerged since then, preventing the outbreak of another depression. However, if we take a close look at the anti-crisis measures being put in place by many governments today, they show a number of covert though unmistakable signs of resurgent protecttionist hankerings. The time has therefore come for the governments of the world's twenty major industrialised and emerging countries (the G20) to take action on their repeated announcements and bring the Doha Development Round to a swift conclusion. That would serve to strengthen the WTO's role as a stronghold of resistance to protectionism and nationalist economic policy. And it would finally set the stage for efforts to turn, in the WTO framework, to a number of pressing issues, such as "trade and climate change."

The linkage between world trade and climate change can be broken down into two aspects only too well known to climate experts – adaptation and mitigation. The issue at stake here is a twofold one, namely what role world trade can play in adjusting to the impacts of a climate change that can no longer be averted (adaptation) and whether and to what extent trade policy is suited for use as an instrument to prevent or fend off climate change (mitigation).

One thing that must be noted in the context of adaptation is that agriculture of the poorer developing countries in tropical regions is likely to be most severely impaired by climate change. Thus, the countries likely to be hardest hit by climate change are those that have contributed least to its emergence. At the same time, global warming is likely to improve, at least temporarily, the conditions for agriculture in other world regions, above all in the northern latitudes. It will be necessary to use international trade to bring about a certain measure of balance between the surplus countries and the deficit countries. It will furthermore be necessary to provide the affected developing countries with more technical and financial support for their efforts to cope with the impacts of climate change and to feed their populations from their own agricultural base. Trade policy in the WTO framework will have a flanking role to play here in that – long overdue – cuts in the agricultural subsidies paid in the OECD countries, above all export subsidies, are required to bring about the conditions under which the agriculture of the poorer developing countries will be able to withstand the distorted competition in the world markets.

Trade policy as an instrument of climate policy (mitigation) is likely to find is way on to the agenda of the next climate framework agreement, and the issue will need to be spelled out in further detail in the WTO framework. Suffice it to note here that Art. XX, GATT, provides an opening for the use of trade measures for the purpose of climate protection. Calls are already being made for compensatory border levies designed to offset the competitive disadvantages faced by national industries, which will be forced to make larger investments and pay higher current costs by mandatory climate protection measures – while their competitors in other countries will be able to continue producing without any such encumbrances, because their governments are, for whatever reasons, unwilling to pull their own weight when it comes to climate protection. However, it would be essential that this instrument be used only as a weapon of last resort, that is, only in that case that all international agreements and offers of financial and technical support failed to help a country to bring its industries and households up to modern climate standards. It is in this sense that we can hope that a tangible spirit of international cooperation in Copenhagen will lead to an effective outcome, one that at the same time spills over to the stalled WTO negotiations, leading to a successful conclusion of the Trade Round and paving the way for a cooperative approach to dealing with the pressing problems at the interface between world trade and climate change.

The views expressed are those of the author, and do not necessarily reflect the views of the GTZ Deutsche Gesellschaft für Technische Zusammenarbeit or the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE).

On 25 January 2010, in another *Current Column*, the author will look into the linkage between world trade and climate change in the light cast by the outcome of the UN Climate Change Conference in Copenhagen.