Trade and climate change

Speech by EU Trade Commissioner Peter Mandelson

Brussels, 18 December 2006

Recently I have been trying to remember the last time the political debate in Europe has moved as dramatically on a single issue as it has in the past year on climate change. The Gore film and the Stern report have been influential. But the main reason for the shift owes less to science than to security. This is why environmental concern is being transformed into a commitment to action.

Today I want to talk about what trade policy can contribute to meeting the challenge of climate security.

The big political problem with climate policy is that the impact we start make today will play out over half a human lifetime; and will not be fully reflected in more secure environmental conditions for three decades.

In other words, the leaders who act today will not be in office to take the credit for their actions and they will not find themselves paying the price of any failure to act. So the normal cost-benefit calculus of political action barely applies.

I don't want to rehearse the scientific evidence. I believe it is now incontrovertible. I will not list the emissions targets that need to be set. But meeting those targets will be the challenge of government in the first half of this century. And because the costs of climate change will be borne first and most heavily by the poor - and because the key to success will lie in the growth model we achieve for developing countries - it is a social justice issue and a development problem on a global scale.

We in the developed world are responsible for 80% of historical carbon emissions. Damaging change has already been programmed into the climate system by our industrial revolutions and consumer societies. We have an historical environmental debt, as well as a self interest in our own survival, that both mean we must lead in finding solutions.

Our leadership is necessary. But it is not enough. China will become the biggest emitter of C02 in or around 2010. A billion Indians will not be far behind. And assuming that countries like China, India and Brazil continue to move towards western levels of economic growth – and how can we argue that they shouldn't? – then we are confronted with the urgent challenge of greening that growth.

Three challenges

I see three essential parts to the political challenge we face.

The first is public education to build a constituency for difficult change and break current patterns of behaviour. There is growing evidence that Europeans are ready to face up to this if they are given brave political leadership.

The second challenge is greater efficiency in the way we use energy. For three decades following the oil shock of the 1970s technology helped to weaken the link between economic

growth and rising global CO2 emissions. But the fastest growing economies in the world today are based on older, dirtier technology. China is building a new coal powered power station every week. China's energy efficiency is about one eighth of that of the EU. And consequently the link between global economic growth and rising CO2 emissions has been re-established today.

The European Commission is right to seek a 20% reduction of estimated 2020 consumption through efficiency savings. And we need a single market in energy in Europe, and more continental inter-connections to supply and allocate energy efficiently. We also need to help China, India and others dramatically to improve their energy efficiency.

The third outstanding challenge is to lower green-house gas emissions. First through cleaner technology for the fossil fuels we are already burning such as carbon capture and clean coal. Through a better energy mix: more natural gas, more biofuels. But ultimately through the move to forms of energy that break the link between energy use and greenhouse gas emissions altogether.

Climate policy and external competitiveness

In implementing this agenda we face an early critical hurdle in the counter-argument about competitiveness. Do we act boldly, - even alone - because we believe this is the right thing to do? Or do we make our actions conditional on action by others to avoid possible competitive disadvantage? Is there a balance to be stuck between climate change and competitiveness?

In the short term, adapting to the need to reduce carbon emissions will impose some financial and competitiveness costs on European companies and individuals. There will be perfectly reasonable pressure from business and industry to ensure that Europe does not move impossibly far ahead of its competitors. This will be especially acute for energy intensive industries such as aluminium and steel smelting and coal-powered energy generation.

These arguments are important, but not the whole story. Most of Europe's economy is built on goods and services that are not internationally traded and for which the competitiveness argument is more limited. And many estimates suggest the costs of moving to a low carbon economy could be as little as 3 or 4% of total developed country GDP by the end of the century – which is statistically a tiny amount.

Even if this is an underestimate we have to measure these costs against the cost of inadequate action. According to some re-insurers this will amount to half a trillion dollars in climate-change related insurance costs every year by 2050. Or 5-20% of GDP in climate-related costs according to the Stern Report.

But the equally important point to grasp is that there is actually a potential competitive advantage in being a leader in adapting to climate change: in moving decisively in a direction the market is inevitably going to take, and getting ahead of the curve.

The lesson of the ozone hole, and the ban on CFCs, was that industry adapts better and faster than almost any model predicts when the incentive and imperative for change exist. And the companies that adapted to bans on CFCs actually did so at a net profit, because cleaner technologies saved them money in new infrastructure and smaller waste bills. Change is demanded by our long-term interests. But it may well be that being the first to change is in our immediate economic interests as well. We have to see climate change as an opportunity agenda not as a burden to be shouldered.

I accept that this is a huge and complex equation. I don't have a definitive answer. But Europe is good at finding market and technological solutions to problems. And as one of the most advanced knowledge driven economies in the world Europe can easily establish a comparative advantage in technologies and services central to addressing the climate crisis. Selling more green goods, shifting the whole base of our economy onto a sustainable footing; showing others how to do it, and exporting the means to do so.

So I back bold leadership by Europe. My judgement is that it is time, if necessary, for unilateral change. We should have confidence that if we lead, others will have no choice but to follow.

But European action alone cannot cap the rise in global temperatures at the crucial level of 2°C. Every action intended to reduce emissions at home will need to be matched by moves to encourage similar emissions reductions abroad.

What I want to do today is to suggest some ways in which trade policy can help secure those gains.

Trade as part of the problem and part of the solution

Transport using carbon-based fuels is an inherent part of modern trade and transport accounts for about a third of all carbon emissions. So at first sight, trade is part of the problem rather than the solution.

To be sure, the greening of transport is essential. Emissions trading that calculates and imposes the costs of travel is an inevitable part of the future of the automobile and aviation industries. There is no avoiding this and the question is not whether - but how.

But it is also essential to establish that economic growth - and the trade that drives it - are not inherently at odds with sustainable climate policy. Economic growth is what gives us the resources to manage the human impact on the environment at the local level. But growth's impact on the environment will have to change. Efficiency gains can help. But we have to do more than stabilise our impact - we need to reverse it. We will not achieve this without a global shift to renewable energy sources and green technologies. And here trade policy has an important role to play.

Another way of looking at Kyoto

One way to look at the Kyoto Protocol -and whatever global agreements will follow- is as an investment and trade agreement. Governments will accept emissions targets. But reaching those targets will depend on the technologies available to their industries. Emissions trading can drive up the cost of emitting green house gasses and thus restrain them. Maximizing exchange and trade in green technology is what will ultimately drive emissions down altogether.

So an important hidden imperative behind Kyoto is the creation of an open global market in environmental technologies. One that allows green technology to be freely traded, at least cost and impediment, especially from North to South. But also between the economies of the developing world.

Here Europe is a global leader. Our investment and services trade can carry knowledge-intensive skills and green technologies to growing economies. European joint ventures are already exporting wind farms and solar panels to China. They are helping companies throughout Asia provide greener air-conditioning and transport. We can literally export the tools and expertise to tackle climate change world wide.

Not only Europe has a stake in this trade. Indian exports of energy-saving water heaters have grown five fold in the last few years. Chinese wind powered electricity generators are increasingly being traded with Africa.

So wherever possible, restrictive national rules on investment or services trade that prevent this transfer of expertise and technology must be removed.

Green trade and the WTO

The most important way of achieving this is through the WTO. Negotiations to reduce tariffs and free up trade in environmental goods in the Doha Round faltered on questions of definition even before the Round was suspended last summer. Those negotiations must be revived and in light of the climate security challenge I hope key negotiating partners will help bring this about.

Alongside an ambitious agreement to cut tariffs in industrial goods, WTO members should agree to go even further in key industries and technologies like clean power generation or renewable energy- defined by their specific link to climate change. It should be possible to agree a 0% tariff deal for these key goods. I am writing to Pascal Lamy to ask him to help spearhead this effort.

Green trade and Europe's bilateral agreements

The EU will also push this agenda in its new generation of bilateral Free Trade Agreements. I want these agreements to address directly trade and investment in green technologies.

Existing WTO agreements also permit incentives linked to environmental criteria in procurement for example. I want to use our bilateral agreements to provide new opportunities for companies that provide public services like construction in an environmentally friendly way.

It is also my aim that our bilateral trade agreements should set up a Sustainable Development Forum between the parties, including civil society. These fora should exchange good corporate practice, promote technology transfer and help facilitate the sharing of research.

These steps will encourage a better functioning global market in green goods and services. This must be trade policy's initial contribution to stabilising our climate.

A Kyoto tax

There is one trade policy response to climate change about which I have serious doubts. That is the idea of a specific "climate" tariff on countries that have not ratified Kyoto. This would be highly problematic under current WTO rules and almost impossible to implement in practice. I also suspect it would not be good politics.

Not participating in the Kyoto process is not illegal. Nor is it a subsidy under WTO rules.

How would we choose what goods to target? China has ratified Kyoto but has no Kyoto targets because of its developing country status. The US has not ratified, but states like California have ambitious climate change policies.

Above all, dealing with climate change is an international challenge. It requires international cooperation. Coercive policies will harm this. Collective responsibility will only be fostered by policies of dialogue, incentive and cooperation.

Conclusion

The European Union holds the key to the capacity of European states to respond to climate change. Acting as a Union of almost 500 million people and the world's largest economy, European states have the weight to lead by example. The weight to bring others to table.

Climate policy will transcend conventional political rationale. Facing up to climate change is about our political commitment to a future generation. It is about our political and environmental legacy.

This is the time for change. Trade policy is only a part of that change, but it has an important part to play.