Agriculture and Climate Change: An Agenda for Negotiation in Copenhagen

The Constructive Role of International Trade

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An open and flexible global trading environment plays a constructive role in both climate change mitigation and adaptation. A new international climate change regime and global trade rules should ideally be mutually reinforceable.

The importance of an open trading system

Trade of food and agricultural products will be crucial in order to offset climate change-induced reduction of production in certain regions and to compensate for periodic shortages due to more frequent droughts and floods. An open trade system can also help address volatility of global agricultural prices, which is likely to be exacerbated by the impacts of climate change.[1]

Agricultural expansion is a key driver of deforestation. The global community is therefore well advised to focus on ways to increase agricultural productivity for both crops and livestock on existing arable land. Not only will this lead to improved food security, but it is also an important indirect form of greenhouse gas (GHG) mitigation. Easy and reliable access to technologies will be crucial in moving toward a low-carbon global economy. This, in turn, will be facilitated by an open trading system, especially for yield-increasing inputs into agricultural production.

It is not desirable to increase yields without concern for the environment through, for example, a high amount of fertilizer use. Certain regions, such as Africa, however, can easily increase their use of fertilizers, given their current low levels of use. Other regions must adapt to improved fertilizer practices in order to decrease nitrous oxide emissions without sacrificing yield. Improved seeds, including those derived from modern biotechnology, not only increase yields, but also have the potential to help producers grow their crops in drier and hotter conditions and can maximize the nitrogen uptake from fertilizers. Indeed, it is hopeful that new biotech crops with such useful traits will sway those skeptical of the technology and thus help reduce present regulatory trade barriers.

Trade-distorting domestic support to agriculture, which is tied to production, should be reduced—or, even better, eliminated—since it can lead to environmental degradation by overexploiting scarce or fragile natural resources. It is instructive, in this regard, to see how the reforms of the Common Agricultural Policy (CAP) have been accompanied by a steady reduction of GHG emissions from agriculture in the European Union, for example, through a reduction of livestock herds. A decoupling of domestic support from production in Organisation for Economic Co-operation and Development (OECD) countries also contributes to increased investment in the agricultural sectors of developing countries.

The Doha Development Round includes a negotiation on lowering tariffs (and other non-tariff barriers) on environmental goods and services. Some have expressed the view that the opposite principle could also be applied, namely that higher tariffs (or border tax adjustments) could be used to discourage imports of products from countries without climate change regulations, or of limiting demand for products with large carbon footprints. Instead, emphasis should be placed on ensuring greater commitment to mitigation in all countries. A comprehensive carbon trading scheme (or tax) should result in prices that reflect a product's relative carbon intensity and will be more effective than governments resorting to tariff measures at the border.

Recommendations:

- By allowing food products (including embedded water) to move to regions negatively impacted by climate change, trade contributes to adaptation and global food security.
- Trade can help address volatility of global agricultural prices, which is likely to be exacerbated by the impacts of climate change.
- Increasing agricultural productivity on existing arable land, thereby reducing pressure on forests, must be an important climate change mitigation and adaptation strategy. Liberalized trade in goods and services will assist in this process.
- The international community should continue to reduce and eliminate trade-distorting domestic support, as this frees up investment in agricultural sectors in developing countries and leads to more efficient and sustainable global production patterns.
- Tariffs or border-tax adjustments are not good instruments for limiting imports of products from countries without sufficient climate change regulation, specifically because they lead to discrimination and retaliation.

International climate change and trade rules should be coherent

There is a great deal of speculation about possible conflicts between international climate change and international trade rules. It is important for the international community to strive for policy coherence. In theory, there should be no conflicts between these two sets of international rules. The United Nations Framework Convention on Climate Change explicitly states that measures taken to combat climate change should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade. Likewise, World Trade Organization (WTO) ministers have pledged that an open, nondiscriminatory, multilateral trading system and actions that protect the environment and promote sustainable development can and must be mutually supportive.

The WTO's insistence on national treatment and nondiscrimination may well serve as a sufficient bulwark against countries tempted to hide protectionist motives under the guise of climate change. Likewise, the WTO rules may already be sufficiently flexible to adjust to the new climate change rules. Therefore, the question of aligning WTO rules should be tackled after the conclusion of a new international climate change regime. WTO parties should devote their efforts to a rapid conclusion of the Doha Development Round. The economic and developmental benefits from concluding the round will strengthen countries' abilities to address climate change.

WTO members should consider adopting a peace clause, which

[1] A considerable number of export restrictions were put into place in 2007 and 2008 to mitigate against rising food prices, but, actually, they blocked important supply responses and contributed to higher global prices. See S. Mitra and T. Josling, *Agricultural Export Restrictions: Welfare Implications and Trade Disciplines*, IPC Position Paper, www.agritrade.org/GlobalExpRestrictions.html (2009).

exempts certain climate change measures from litigation under the WTO for a short period. The purpose of such a clause would be two-fold. It would allow the international community to understand how various countries choose to implement a new international climate change regime. It would also provide a period of time for countries to consider whether specific amendments to WTO rules or to the new climate change rules will be required.

An important area for consideration will be the trade of carbon credits. A "trade and cap" regime is seen by many as the most promising approach for combating climate change. Such regimes can be established at the national or regional level. In the long run, a global carbon market would lead to the most cost effective emissions reductions and importantly reduce the risks of leakage, but, for the foreseeable future, efforts must be placed on how national or regional schemes should be interlinked. As with other trading arrangements, these carbon trading schemes will require sound rules. There are issues such as the scientific definition and measurement of units and their interoperability between different sectors and countries. Key concepts from the General Agreement on Tariffs and Trade (GATT)/WTO sphere, such as non-discrimination and national treatment, may also need to figure in an international carbon trading system in order to ensure a level playing field. Concerns that widely differing national methods for allocating allowances or accepting offsets may impair fair competition also have to be addressed.

The growing literature about the need to clarify WTO rules with regard to climate change also encompasses border tax adjustments; what is and is not allowed under the WTO's exceptions clause, Article XX; and whether or not products can be differentiated from each other based on their production and processing methods. All these topics are highly relevant for the agricultural sector and should be included in a work program for policy coherence between international climate change and trade rules. There are, however, a number of issues specific to food and agriculture, which deserve additional attention:

Given agricultural production's reliance on soil and water, there will be an increasing number of marketing incentives intended to promote environmentally friendly agricultural products. Examples include information on the carbon or water footprint of a product. Producers in developing countries may find it difficult to meet a proliferation of distinct requirements, so care will have to be taken to ensure transparency and greater coherence among private-sector schemes. As far as government standards are concerned, the WTO clearly identifies three international standard-setting bodies in the sanitary and phytosanitary realms whose task it is to arrive at internationally approved food standards. National measures based on these standards are automatically considered to be WTO compliant. The international community could consider establishing a similar environmental or climate change-standard-setting body, which would seek consensus on complex scientific issues, such as how to calculate a lifecycle carbon analysis.

Another important consideration pertains to government support provided to agricultural producers for mitigation measures. Subsidies are already widely used in the production of biofuels and could be used to incentivize carbon sequestration in soils or reduce agricultural emissions in other ways. When public money is used toward that end, WTO rules on subsidies will come into play. In addition to the WTO's antidumping and countervailing rules, the Agreement on Agriculture's rules on subsidies will also need to be examined. WTO rules may be helpful in ensuring that countries do not disguise increased levels of trade-distorting support under the guise of climate change. Alternatively, however, WTO rules may prove to be too restrictive for genuine climate change measures.[2]

Recommendations:

- The Doha Round modalities should not be reopened in order to address climate-change related issues. Countries should seek to conclude the Doha Round now in its own right. The economic and development benefits from concluding the Round will strenghten countries' ability to address climate change.
- WTO members should consider establishing a task force or work program to examine the relationship between existing trade rules and climate change measures. In order to avoid drawn out and difficult disputes in the WTO, members can withhold from litigation when newly agreed international climate change rules are in the process of implementation at the national level.
- An important question which must be addressed is the extent to which international trade rules should also be applied to the international trade of carbon credits, and if not, how a separate set of trade rules for carbon credits is to relate to WTO rules.
- A greater harmonization of both public- and private-sector climate change-related standards should be pursued in order to make these more effective and less trade distorting.
- To avoid potential conflicts in the area of agricultural GHG reduction subsidies, a "health check" for internal domestic support (in other words, an examination of whether the Agreement on Agriculture rules on domestic support need to be revised) may be advisable.
- An open and flexible trading system will be an important factor as the world looks for ways to adapt to climate change as well as to mitigate it by reducing GHG emissions. To avoid conflicts between international climate change and trade rules, the international community needs to ensure coherence. It is, after all, the same countries negotiating in Bonn (and elsewhere under the UNFCCC umbrella) as in Geneva. ■

For Further Information: To examine the interlinkages between climate change, agriculture, and trade, the IPC and the ICTSD have convened a "Platform on Climate Change, Agriculture, and Trade: Promoting Policy Coherence." See www.agritrade.org/events/ClimateChangePlatform_000.html.

[2] See T. Josling and D. Blandford, *Greenhouse Gas Reduction Policies and Agriculture: Implications for International Trade Disciplines*, forthcoming from the International Centre for Trade and Sustainable Development (ICTSD)–International Food & Agricultural Trade Policy Council (IPC) Platform on Climate Change, Agriculture, and Trade.

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