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OPINIONS

Trade tactic could unlock climate negotiations

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An export duty on carbon-intensive products, similar to that recently imposed by China on textiles, could help overcome the key obstacle to Southern participation in the upcoming 'post-Kyoto' climate change negotiations, say *Benito Müller* and *Anju Sharma*.

One of the key points US opponents of the Kyoto Protocol use to argue against the United States adopting targets limiting greenhouse gas emissions is that the protocol does not require developing countries, particularly China and India, to do so.

Adopting targets without 'meaningful participation' by these developing countries would, it is claimed, give these nations an unfair competitive advantage.

Increasingly, the issue of developing country commitments to reduce emissions is also becoming contentious among countries that *are* party of the Kyoto Protocol, and is impeding progress in climate negotiations.

The response of China and the G77 group of developing countries to proposals that they should make commitments has been unambiguous.

To quote the G77 chair at a climate meeting in Delhi, India, in 2002: "We specifically and clearly refuse to open at this time any dialogue or process — or indeed any wording — that could be in any way interpreted as accepting to open discussions on new commitments on non-Annex I countries."

Non-Annex 1 countries are those that, unlike the industrialised countries listed in Annex 1 of the Kyoto Protocol, are not obliged to reduce their emissions of greenhouse gases.

A recent development in international trade in textiles could offer a way out of the impasse. If adapted to the climate change context, the issue of competitiveness that arises if developed countries take on commitments but developing countries do not might be overcome.

Learning from international textile and lumber trade examples

In the run-up to removal of all textile import quotas under the World Trade Organization (WTO) on 1 January 2005, it was generally expected that textile production would migrate from countries in the North and the small developing country producers such as Bangladesh and Vietnam, to the large low-cost producers, mainly China and India.

Textile producers, chiefly in Northern importing nations, were vociferous about imports from countries such as these two having an unfair competitive advantage.

China was keenly aware of these accusations, and repeatedly denied them.

Yet it also seemed to accept that the projected surge of its textile exports, particularly to the United States, could affect bilateral relations, and ultimately allow WTO members such as the United States apply safeguards (such as import quotas) to protect their own industry.

Possibly for this reason, China announced a rather uncommon policy for an exporter: to impose a (small) export duty on its textile exports, to be paid by the foreign consumers. This meant, for instance, that US consumers would pay more for Chinese products in order to protect US producers.

The move was meant to reduce the likelihood that countries importing Chinese textiles would re-introduce import quotas to avoid international markets being flooded with Chinese textiles.

As it happens, the duty was too small to have the desired effect, with the consequence that China and the European Union recently agreed to temporarily re-introduce such quotas.

Yet the strategy has been proven. In the mid 1990s, the US threatened to impose import duties on lumber coming from Canada, claiming that Canada was giving its lumber industry unfair subsidies.

The resulting dispute was resolved in the 1996 US-Canadian Softwood Lumber Agreement, under which Canada imposed a substantial duty, amounting to more than 10 percent, on its lumber exports to the US. (The Agreement expired in 2001 and was not renewed because of a WTO ruling that the US concern about unfair subsidies was unsubstantiated).

Applying the lessons to climate change

If developing countries that are not required to reduce greenhouse gas emissions imposed a similar duty on the export of goods, such as steel, cement and fertilizers, whose production generates a large amount of greenhouse gases, the industrialised countries' concerns about unfair competitive advantages might be overcome.

China, for instance, could alleviate the worries of US producers of carbon-intensive goods that, if they were forced to reduce their emissions Chinese products would be 'unfairly' cheap, by introducing a duty on exports to the United States.

As well as protecting the US producer, China would potentially receive more in payments from US consumers than it would otherwise — particularly if the alternative is a US *import* tax.

The level of the export tax could be negotiated bilaterally so that both, say, the US and Chinese government are happy with it, but it would in general be more efficient, and probably more equitable, if the system was implemented under the UN Framework Convention on Climate Change.

As part of the deal, developing countries could use the funds generated from the export duty for a green investment scheme, which would ensure a further clean-up of the production methods of these carbon-intensive goods, and thus contribute to reducing the emissions in these developing countries.

In short, trade in textiles and lumber may have revealed a way out of one of the key impasses in the forthcoming 'post-2012' international climate change negotiations: how to avoid a refusal by industrialised countries to carry out (further) mitigation efforts because of competitiveness concerns in the absence of developing country targets.

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environmental negotiations.

Ins and outs: the international textile trade regulations

The international rules governing trade in textiles have long been controversial. Between 1974 and 1994, the trade was subject to bilaterally negotiated quotas governed by the 'Multifibre Arrangement'. Under the rules, if a surge in imports caused, or threatened, market disruption in an importing country, it could impose 'selective quantitative restraints' such as import quotas.

In 1995, the World Trade Organization's Agreement on Textiles and Clothing (ATC) changed everything, setting up a 1 January 2005 deadline for the removal of all quantitative restraints.

But until the deadline passed, ATC retained safeguard measures for situations where surging imports of specific products cause (or threaten to cause) serious damage to the domestic industry of an importing country.

These could be used on specific products from specific countries. In 1995, the first year of the agreement, the US invoked the provisions 24 times against 14 exporting developing countries.

Possibly because of concerns about competitiveness, the transitional ATC safeguard mechanism was extended to 2008 for China, when it joined the World Trade Organization in 2001.

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