

## Trade could hold the key to a climate deal

Bård Harstad DECEMBER 3, 2009

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Our leaders' recent [confession that a legally binding climate agreement is not feasible](#) this year may be no bad thing. The hope is that the new goal for December – to reach a broader “political agreement” – will establish a better foundation for a future climate deal than we currently have.

This is important, since a climate agreement currently faces three significant obstacles. To overcome these, there might be no solution other than to link any deal to new and existing trade agreements.

The first challenge is to encourage participation in a climate agreement. The problem is that while participating countries bear the costs of reducing their own emissions, countries that chose to opt out can nevertheless benefit from these reductions and, in addition, from a lower fossil fuel price when the participating countries reduce their demand.

The Kyoto Protocol failed to motivate the US, as well as big developing countries, to take part. But Russia ratified Kyoto after the European Union promised to support its [admission to the World Trade Organisation](#). Clearly, some carrot is needed to motivate participation, and being a favoured trading partner is one of the few powerful incentives that can realistically be offered in international politics. Alternatives such as conditional development aid might be held out to the poorest, but explicit transfers to other countries would be politically unacceptable.

The second obstacle is compliance. Currently, few countries are on track to fulfil their obligations under Kyoto. The explanation is simple: the consequences of not complying are minor. While Kyoto requires non-compliers to repay their carbon debt in the next commitment period at 30 per cent interest, this penalty merely delays the problem and reduces the motivation to then comply.

Specifying explicit fines or fees for non-compliance, on the other hand, cannot be credible in an international agreement when they are not even credible in a more formal setting such as the EU. After violating the Maastricht Treaty in 2003, for example, Germany and France easily reneged and no fines were paid.

Trade agreements, however, are better enforced since it is in the victim's interest to increase its barriers and reduce competition from the offender. Trade restrictions such as border taxes might also be the only credible sanction for climate treaties.

A third difficulty is stimulating the [development of new technologies](#). Investing in solar technology, for example, must be sufficiently rewarded. For the private sector, this requires a large market and that intellectual property rights are protected. But for the public sector, such investments are still not worthwhile if better technology might become a liability when negotiating the allocation of quotas in the future. Denmark, a technology leader in wind power, has already felt the pressure to bear a larger burden of the EU's obligations: once its investments were sunk, reducing emissions became inexpensive and this could be exploited by the other negotiators.

To prevent investing countries from being penalised in this way, quotas should be based on pre-specified formulas and not on whether a country happens to be at the technology frontier. Rigid formulas preclude exempting ill-prepared countries, however, and these may prefer to opt out unless participation is sufficiently rewarded. Being a favoured trading partner might be the crucial reward.

Implementing such a linkage is possible. The Montreal Protocol, successfully protecting the ozone layer, is already restricting trade with non-participants and non-compliers, although only in the substances controlled by the treaty. To repeat this success and overcome the obstacles for a climate agreement, signatories should become favoured trading partners while non-compliance should trigger a temporary denial of this status. Disputes can be solved by expanding the mandate of the WTO's dispute settlement body or another mediator.

With the Doha Development Round negotiations stalled, a linkage to climate may even be a blessing for trade. There is a unique opportunity to link the two negotiations and achieve progress in both. That should be the goal for world leaders when they show up in Copenhagen.

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