Exploring the international aspects of global climate change
Statement of the National Foreign Trade Council
before the United States Senate Committee on Energy & Natural Resources
Jake Colvin, Vice President for Global Trade

November 17, 2009

Mr. Chairman, Thank you for the opportunity to testify before the Committee. We welcome the commitment of Congress and the Administration to address the real and urgent problem of climate change. We particularly appreciate your efforts to highlight the international aspects of climate policies.

The National Foreign Trade Council (NFTC) is the country's oldest and largest trade association devoted specifically to international trade and tax policies. Our members are global companies doing business in virtually every country on earth. The NFTC supports an open, rules-based trading system, promotes international tax policies that contribute to economic growth and job creation, and opposes unilateral economic sanctions.

Given our focus on international economic issues, the Council does not take a position on specific legislative approaches to climate change. While we broadly support targets to reduce U.S. emissions and an international framework agreement to put countries on low emissions pathways, comprehensive climate legislation addresses issues beyond our mandate and expertise.

I am proud to say that a number of NFTC's member companies have been leaders in addressing climate change through their business practices, partnerships and advocacy. For example,

- ExxonMobil is a leader in the development and use of component technologies essential for carbon capture and storage (CCS), which represents an important opportunity for reducing global emissions.
- GE is on track to double its R&D in its ecomagination products to $1.5 billion by 2010 and has reduced the intensity of its greenhouse gas by 41 percent since 2004 -- surpassing its own goal of a 30 percent reduction.
- Procter & Gamble has doubled its 2012 reduction targets for greenhouse gas emissions, waste generation and water and energy consumption and recently unveiled the activation of a 1.1 megawatt photovoltaic solar system at its paper products manufacturing plant in Oxnard, California.
- Wal-Mart has outlined a series of aggressive goals and expectations with leading suppliers, officials and NGOs in China to improve energy efficiency, use of natural resources, transparency and compliance with environmental laws.

In addition, a number of NFTC's member companies have partnered with organizations such as Conservation International and the World Wildlife Fund on projects to reduce voluntarily their carbon footprint and conserve resources. Others have expressed views about U.S. climate policies on their own or through organizations such as the Business Roundtable, which just released a report outlining its views on a sustainable climate and energy policy, and the United

States Climate Action Partnership (USCAP), in which nine of the Council's board companies participate.

The Council focuses only on the aspects of climate policies which are likely to impact the global economy, relations with U.S. trading partners, and the international competitiveness of our member companies. I would like to concentrate today on two issues related to international economic aspects of climate change:

- First, the United States has an opportunity to further U.S. economic growth and global environmental goals by more fully incorporating a green trade component into the U.S. climate agenda.

- Second, addressing competitiveness concerns in U.S. climate legislation presents a serious challenge for policymakers. There is a danger that well-intentioned and politically popular measures such as carbon tariffs could threaten U.S. export markets and undermine global environmental cooperation.

Promoting U.S. green jobs and clean technology development and deployment

The Administration and Congress can promote green jobs at home and advance global environmental objectives by incorporating a more robust green trade component into the international climate agenda.

Expanding overseas markets through green trade

In particular, efforts to expand overseas markets for U.S. climate technologies by reducing trade barriers is critical for creating new green collar jobs in the United States and can aid global climate goals.

Future growth of the U.S. clean energy economy will depend on access to foreign markets. While the United States is among the largest producers and consumers of green goods and services today, demand growth has slowed in recent years. Demand for environmental goods and services is growing rapidly in developing countries, which offer significant opportunities for U.S. companies.

U.S. exporters face disproportionately high tariffs and other obstacles to selling environmental goods and services like wind turbines and solar panels abroad. In fast-growing developing countries such as China and India, tariffs can be as high as 40 percent. In some instances, non-tariff measures such as preferential government procurement policies and foreign investment restrictions present even larger obstacles for U.S. businesses. Reducing these impediments would allow U.S. companies to capture a larger share of the more than $600 billion environmental goods and services market, which is growing at twice the rate of all trade.

Removing green trade barriers can also help the environment. The World Bank notes that, "it is widely accepted that trade liberalization of [environmental goods and services] would benefit the environment by contributing to lowering the costs of goods and services necessary for environmental protection, including those beneficial for climate change." Research also suggests a link between more green trade and improved environmental quality.

Thus far, green trade has not received a great deal of attention in international climate negotiations despite the clear environmental benefits. While the United States has proposed an Environmental Goods and Services Agreement as part of the Doha Development Round of trade negotiations under the World Trade Organization (WTO), progress has been slow.

Given the economic and environmental importance of green trade, we hope that the Administration and Congress can work together to identify additional channels to advance cooperation on these issues, including through the Major Economies Forum and the United Nations Framework Convention on Climate Change (UNFCCC).

Earlier this year, NFTC partnered with eight other leading U.S. business associations to call on the President to elevate the priority of lowering green trade barriers and to pursue a green trade agreement "through all appropriate international economic and environmental forums." A copy of the letter is attached to this testimony.

Improving global frameworks to encourage the development and deployment of U.S. clean technologies

Two issues that have received a great deal of attention in international climate discussions are intellectual property rights and financing. Ensuring the global protection of intellectual property rights and addressing funding and capacity needs in developing countries will promote investment environments abroad that are better able to adopt and develop clean technologies.

The intellectual property rights system -- and predictable enforcement of those rights overseas -- helps spur innovation and economic growth across all sectors of the U.S. economy. Importantly, the system promotes the development of new energy solutions and environmental technologies needed by communities around the world to address global warming. Given the importance of IP protection for promoting innovation and developing clean technologies, proposals in the UNFCCC negotiations that seek to weaken the value of intellectual property assets are troubling. We commend the Administration and Congress for their strong and continued support for global intellectual property rights protection.

While it is essential to protect and reward U.S. innovation, it is equally important for the United States to support robust financing and assistance mechanisms to ensure that developing countries can develop the capacity to address climate change and adopt clean technologies. Financing is an important pillar on which success of the UNFCCC negotiations will hinge, and can help secure strong actions from developing countries. Getting it right – in terms of adequate public funding, proper mechanisms and reporting requirements, and targeting public funds to create enabling environments that will attract private capital and investment – is critical. Investing in the development of overseas capacity for clean energy technology will help accelerate the reduction of global emissions and create new markets for U.S. products and services.

Promoting sustainable economic policies

An aggressive strategy to promote green trade and innovation would complement the goal of rebalancing the global economy that President Obama and other world leaders established at recent G-20 forums. As President Obama said prior to his recent trip to Asia, a new global growth strategy will be "one in which prosperity around the world is no longer as dependent on American consumption and borrowing, but rather more on American innovation and products." Future U.S. job growth will rely increasingly on tapping higher demand from overseas markets, particularly from China and other advanced developing countries.

Green trade also presents a unique opportunity for the President and Congress to work together on a bipartisan basis and restore a common purpose to U.S. trade policy. Policies aimed at opening markets for U.S. clean technologies, protecting and promoting innovation, and providing high-quality financial assistance to developing countries ought to attract strong bipartisan support.

Addressing competitiveness concerns

As Congress seeks to address competitiveness and carbon leakage concerns from implementing an emissions reduction program, one popular option – the use of border adjustment measures – could damage the ability of American companies to compete in key markets and global environmental cooperation. Given the increasing reliance on exports to grow the U.S. economy and create new jobs, it is essential to avoid introducing measures which could cause unnecessary friction with U.S. trading partners.

Avoiding a green trade war

One concern is the compatibility of border adjustment measures with global trade rules. Although border measures are not inherently incompatible with trade rules, the WTO notes that, "a connection must be established between the stated goal of the climate change policy and the border measure at issue" and "the measure must not constitute a "means of arbitrary or unjustifiable discrimination" or a "disguised restriction on international trade." As a result, according to Jeffrey Frankel of Harvard University, "border measures to address leakage need not necessarily violate the WTO or sensible trade principles, but there is a very great danger that in practice they will."

The House-passed American Clean Energy and Security Act is particularly troublesome in this regard. By establishing a mandatory international reserve allowance program and requiring Congress to approve a joint resolution to turn it off, the House of Representatives introduced a political element into the decision-making process. U.S. trading partners will argue that such a program is as likely to be fueled by a desire to protect domestic industry as by an interest in protecting the environment.

While NFTC believes that the free allowances contained in current legislative proposals could also be scrutinized for their compatibility with global trade rules, the reality is that these allocations are less likely to disrupt the global trading system or cause conflict with U.S. trading partners. One reason is that most countries contemplating emissions reduction programs include free allowances in their plans and will be reluctant to challenge similar efforts by others. Trade expert Gary Horlick also pointed out earlier this year in testimony before the Senate Finance Committee that, “import restrictions are much more likely to be challenged in the WTO than is financial assistance to producers, such as offsetting costs or giving away permits.” In practice, countries are bothered more by tariffs than financial assistance.

Regardless of whether it is possible to design a provision that complies with global trade rules, it is not in the economic or environmental interest of the United States to rely on border adjustment measures. They have already been met with fierce resistance by developing countries such as China and India. Border measures are likely to encourage retaliation from U.S. trading partners and will make it more difficult for American businesses to succeed in the global economy.

Concerns about the impact of border measures on the global competitiveness of U.S. businesses and workers have led many industries to oppose them, including some of the sectors projected to be most heavily affected by climate legislation. Associations representing the forest, chemical and aluminum industries, along with the American Farm Bureau Federation, have all expressed skepticism about their utility. For example:

- The American Chemistry Council said in a September statement that, it "does not support policies that aim to address emissions leakage by imposing border taxes or some other trade-related cost adjustments."

- The American Farm Bureau Federation has testified that, “Provisions such as those contained in the House bill effectively imposing border tariffs on goods from countries that do not have similar GHG restrictions will almost certainly be challenged in the WTO and are in serious jeopardy of being found to be non-compliant with our obligations. Moreover, such actions could very likely lead to retaliation.”

- In August, the American Forest & Paper Association wrote in a statement to the Senate Finance Committee that, “a border tax or other border measures are highly imperfect, will have their own negative repercussions, and should be avoided.”

- Stephen Larkin, President of the U.S.-based Aluminum Association, observed recently that, “We believe that border adjustments are not useful.”

Increasingly, other countries are also raising the possibility of using a border tariff against the United States if Washington fails to pass climate legislation or U.S. targets are seen as too weak. If Congress legitimizes carbon tariffs through U.S. legislation, it will become more difficult to argue against their use by U.S. trading partners.

In short, border measures threaten to ignite a green trade war and diminish the President’s authority and ability to rebalance the global economy.

Balancing U.S. political interests with international environmental goals

Imposing a cost on certain imports into the United States through a border adjustment measure or carbon tariff is also unlikely to advance U.S. environmental goals. Doing so could have a negative effect on relations with key developing countries whose participation in an international agreement is essential to addressing global climate change.

One problem is that a carbon tariff is a blunt instrument, at least as it has been conceived in U.S. legislation thus far. Carbon tariffs would likely apply equally to imports from energy-efficient facilities and carbon-intensive producers from a target country. This blanket application does not provide the kind of incentive to foreign producers to become more energy efficient that would encourage a reduction in carbon emissions.

More broadly, imposing green tariffs would likely cause diplomatic tensions that will make it more difficult to cooperate on important environmental initiatives with key developing countries.

For all of these reasons, we share the skepticism expressed by President Obama to border measures in June. In order to create a level playing field for manufacturers, the President said that, "there may be other ways of doing it than with a tariff approach."

Although we are skeptical about the utility or necessity of including carbon tariffs in U.S. climate legislation, we appreciate the need to address legitimate political and economic concerns to ensure the passage of climate legislation in the United States.

If a border adjustment mechanism is to be included in U.S. climate change legislation, it is essential that any provision provides complete authority and discretion to the President to determine if and when it should apply. It will also be important to design a measure in a way that recognizes steps that other countries are taking to green their economies, particularly in the context of an international framework agreement on climate change. We would also encourage Congress to consider whether it is feasible to design a measure in such a way that provides incentives for foreign companies to green their production. Carbon tariffs should not be applied either to countries which are taking nationally-appropriate steps to combat climate change or to imports of goods from overseas facilities, wherever located, if those individual facilities haven taken steps to lower their greenhouse gas emissions on their own.

Conclusion

Aggressive and innovative green trade policies can assist efforts to advance U.S. economic priorities and environmental goals, but attempts to impose new tariffs could harm both. As General Electric's CEO Jeffrey Immelt wrote earlier this year, "Renewing American competitiveness will not be accomplished through protectionism, but by rebuilding American technology, manufacturing and exports." Efforts to open markets abroad for U.S. businesses and workers in the clean technology arena will be essential to rebalance the global economy and create the next generation of green manufacturing jobs in the United States. Thank you for the opportunity to share our views.

Business Council for Sustainable Energy
Coalition of Service Industries
Emergency Committee for American Trade
Information Technology Industry Council
National Association of Manufacturers
National Foreign Trade Council
Organization for International Investment
Retail Industry Leaders Association
United States Chamber of Commerce

July 30, 2009

President of the United States
The White House
1600 Pennsylvania Avenue NW
Washington, DC 20500

Dear Mr. President:

We write to express our appreciation for your commitment to lower trade barriers to environmentally-friendly goods and services, which would result in important benefits for the U.S. economy and to global climate change efforts. We strongly urge you to pursue a swift conclusion of a comprehensive Environmental Goods and Services Agreement through all appropriate international economic and environmental forums.

Lowering trade barriers on green goods and services would be good for the environment and the U.S. economy. The World Bank notes that, "it is widely accepted that trade liberalization of [environmental goods and services] would benefit the environment by contributing to lowering the costs of goods and services necessary for environmental protection, including those beneficial for climate change." U.S. businesses and workers would also benefit from the removal of disproportionately high tariffs and non-tariff barriers that U.S. exporters face on green goods and services in a large and rapidly growing export market. Lowering trade barriers would help create the green jobs that will accelerate recovery of the U.S. economy.

We urge you to use all possible channels to pursue an agreement to reduce or eliminate trade barriers on environmental goods and services. While the Doha Development Round of trade negotiations under the World Trade Organization (WTO) is one appropriate forum, we believe the combined economic and environmental benefits of an agreement warrant the exploration of alternative or complementary efforts. We hope you will investigate the feasibility of either a plurilateral agreement at the WTO or the initiation of negotiations via another forum, balancing the need to capture a significant portion of environmental trade and an ability to enforce commitments with a framework that is flexible enough to permit the rapid conclusion of a deal. We believe that either the Forum on Asia Pacific Economic Cooperation (APEC) or the Organization for Economic Cooperation and Development (OECD), which have initiated important work on reducing barriers to green goods and services, could serve as the basis for interim commitments in advance of an agreement at the WTO.

We also encourage you to introduce the consideration of avoiding and eliminating barriers to green trade into international climate change discussions. While an environmental forum is not the appropriate venue for negotiating a trade agreement, international climate discussions – for example at the United Nations, in the Major Economies Forum and in bilateral and regional forums – should reflect the importance of lower trade barriers in delivering clean technologies to developing countries. As international climate change negotiators seek to agree upon a range of policies to help developing countries finance and adopt clean technologies, promoting the utility of lowering trade barriers on green goods and services should be a key component of a U.S. approach. This approach should also facilitate the deployment of technology while preserving in full the incentives for U.S. companies to invest in the development of new solutions. Promoting trade and protecting Intellectual Property rights in green technologies are of paramount importance if we are to enable the creation of new solutions to climate change and green jobs in the United States.

It is equally vital for domestic efforts to recognize the importance of lowering trade barriers. Thus far, congressional efforts to provide a framework for exporting clean technology, for example through the American Clean Energy and Security Act of 2009, have failed to include any mention of global trade in environmentally-friendly goods and services. Emphasizing the importance of an international environmental goods and services agreement in domestic legislation would enhance legislative efforts to deliver clean technologies to the developing world. **We hope that you and your Administration will work with Congress to generate clear signals of support for lower trade barriers, which can help to reinforce a positive message on lowering green tariffs to the international community.**

We look forward to working with you to amplify and support your efforts to achieve an Environmental Goods and Services Agreement in the coming months. Thank you for your consideration of these comments.

Sincerely,

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Retail Industry Leaders Association
United States Chamber of Commerce