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What next for the trade, climate communities?

SUSTAINABLE DEVELOPMENT

The WTO, Nairobi and the 2030 Agenda

UNFCCC

Perspectives from a trade, climate negotiator

EMISSIONS TRADING SCHEMES

Understanding carbon markets in the Paris Agreement



International Centre for Trade
and Sustainable Development

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What next for the trade, climate communities?



Following last year's busy international calendar, which saw governments sign up to a new 2030 Agenda for Sustainable Development, a universal climate deal, and an unexpected set of outcomes from the WTO's Tenth Ministerial Conference (MC10) to cap it all, policymakers must now figure out where to go next.

But with a fragile global economy beset by turbulent financial markets, rapidly falling commodity prices, and the knock-on impacts of a slowdown in China along with strained growth in other emerging markets, 2016 has for some landed with a thud. Concerns around international security also continue to abound, responses to the refugee crisis remain woeful, and a resurgence of anti-globalisation rhetoric is manifest.

The 2030 Agenda includes a list of 17 Sustainable Development Goals (SDGs) and 169 targets geared towards tackling the world's many and urgent economic, social, and environmental challenges. Along with starting to implement these aims, UN members must this year agree to a set of indicators for measuring success, and define a global follow-up and review process.

Much work too lies ahead to operationalise the landmark "Paris Agreement" on climate change, including further negotiations on the modalities and rules for a range of areas that will form the new multilateral climate regime. A wide range of stakeholders, financial markets, and the private sector will need to engage in the necessary shift towards a low carbon economy. Climate-related financial risk disclosure efforts are already underway, for example, to help market participants better understand this landscape.

Officials returning to the WTO have been tasked with finding ways to advance negotiations, despite formally agreeing to disagree at MC10 in Nairobi, Kenya over the fate of the 14 year-old Doha Round trade talks, while pledging to continue to pursue its issues. Nairobi also promised that no new issues would be negotiated multilaterally unless agreed by the full membership.

Against this backdrop, deciphering a path forward for multilateral trade negotiations in the coming months will not be easy. On the regional front, securing the ratification of the Trans-Pacific Partnership (TPP) may also prove a long-haul process, while other talks whether Trans-Atlantic, pan-African, or Asian-centred remain underway. Some trade watchers, meanwhile, hope the year will bring success for the plurilateral talks on an Environmental Goods Agreement (EGA).

The articles in this BioRes edition take stock of outcomes from last year's major international gatherings and identify salient issues that demand further reflection among both the trade and climate communities in the context of what continues to be a shifting, uncertain, and challenging global landscape. Join the conversation by following us on Twitter and Facebook. We appreciate both your time and your feedback.

SUSTAINABLE DEVELOPMENT

The WTO, Nairobi and the 2030 Agenda

Rorden Wilkinson

Against the backdrop of the latest WTO ministerial meeting can the multilateral trading system still deliver for the new UN sustainable development agenda?

Commentary on the outcome of the WTO's 10th Ministerial Conference, known as MC10 in WTO parlance, held in Nairobi, Kenya in mid-December has been mixed. More optimistic accounts have hailed the adoption of a package of measures comprising six ministerial decisions on agriculture, cotton, and issues related to least-developed countries (LDCs) as significant and as an illustration of the continued capacity of the WTO's negotiating function to deliver trade gains.

More pessimistic interpretations, however, see the Nairobi agreement as an abandonment of the 2001 Doha Development Agenda (DDA) in all but name and an open door for more exclusionary, plurilateral, and mega-regional trade deals.

Yet while commentators have been quick to celebrate or bemoan the outcome of MC10, both in terms of the substantive gains it may bring or the impact it may have on the future of the multilateral trading system, almost no-one has asked what it means for the nascent 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs).

This is a question worth asking. Given the significance of MC10 to revitalising the WTO's negotiating function, and the place of that function in the realisation of the 2030 Agenda, it seems only prudent to reflect upon the impact that the Nairobi outcome is likely to have. This short essay explores the likely contribution of multilateral trading system to the 2030 Agenda in the wake of the Nairobi ministerial conference.

Trade in the 2030 Agenda

The previous Millennium Development Goal (MDG)-centred agenda made important moves towards embedding poverty reduction as a norm of international public policy making – if not practice – even if it was not wholly successful in galvanising the wherewithal to achieve the targets set.¹ One criticism of MDG regime was that it failed to bring the multilateral trading system into a global partnership for development, resigning trade-led growth and by extension growth-led development to an aspiration rather than a formal component of the global development order.

The 2030 Agenda seeks to correct this by bringing the multilateral trading system more centrally into the worldwide fight against destitution and immiseration. Yet, it is through a successful conclusion to the DDA – and crucially an outcome envisaged largely to be in accordance with the original Doha mandate – that the WTO and the multilateral trading system are to play a role.

Prior to the Nairobi ministerial the multilateral trading system had been set to play a more substantive role in the realisation of the 2030 Agenda than it had in the MDG-era. Trade had been cast as an engine for generating the kind of economic growth necessary to eradicate extreme poverty, for pressing forward with the elimination of destitution on a global scale, and for bringing welfare gains to all of the world's populations.

Certainly, questions persisted as to whether the WTO was up to the challenge of driving forward the kind of trade-led growth envisaged in the 2030 Agenda, and its capacity to play a full role was the subject of some scepticism as a result.² These questions had arisen not only because of the difficulties members have in concluding the Doha Round, but also

because of the WTO's peripheral role in shaping the 2030 Agenda, and the less-than-spectacular record of the multilateral trading system in delivering gains for developing countries.❸ That said, the 2030 Agenda and the accompanying SDGs were nonetheless premised largely on an assumption that the Doha Round would eventually be concluded, that its conclusion would bear some resemblance to the original Doha mandate, and meaningful development gains would flow therefrom.

Box 1: What is the 2030 Agenda for Sustainable Development?

The Agenda for Sustainable Development is the latest in a long line of UN mandated cycles seeking to coordinate development efforts to improve the lives of the world's marginalised. The 2030 Agenda was adopted by governments at a meeting of the UN General Assembly last September. The core document – *Transforming our world: the 2030 Agenda for Sustainable Development* – consists of four main parts. The first, the declaration, sets out collective development priorities for the next 15 years and the principles and values upon which these are to be based. The second section outlines 17 Sustainable Development Goals – successors to the MDGs – and 169 accompanying targets that are benchmarks of achievement. A third section outlines how these priorities will be addressed via a means of implementation and a revitalised “Global Partnership” for development that brings together governments, civil society, and the private sector. Finally, the document also commits to a systemic follow-up and review of the implementation agenda, operating at national, regional, and global levels.

Source: Author's own

All change in Nairobi

Nairobi, however, changed all that irrecoverably. It threw into even sharper relief the mismatch between the function, direction, and orientation of the multilateral trading system and the means by which – and aspirations for – the realisation of the 2030 Agenda. In so doing, it relegated the WTO to a cameo role, and altered profoundly the relationship between the pursuit of multilateral trade openings and the realisation of substantive and meaningful development gains.

How and why is this the case? The agreement reached in Nairobi transforms the framework for conducting trade negotiations by moving it away from one targeted on delivering broad-based universal deals via a “single undertaking” to something more lithe and multi-faceted. This resulted because members proved unable to agree on whether or not to reaffirm the DDA in the Nairobi ministerial declaration thereby neither retaining nor abandoning it as the framework for future WTO negotiations.

Instead, rather than have the Nairobi negotiations flounder on an unbridgeable divide, members agreed to recognise their differences and to allow subsets of countries to pursue plurilateral negotiations in areas of interest to them. Only in cases where an attempt is made for new issues to be negotiated multilaterally – that is, across the membership as a whole – would universal consent be required.

It is because Nairobi resulted in a successful conclusion – and crucially opened the door for further negotiations to take place – that it is widely seen as rekindling faith in the organisation's negotiating function and offering an important counter to the growth of “mega-regional” trade deals such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). Yet, it came at the expense of the DDA and the 14-year effort to agree to a wide-ranging multilateral deal on trade measures for development that has been a key demand of developing countries, and which has been crucial to securing their participation in the multilateral trading system.

The consequences of this decision, however, have significance beyond the Doha Round. The Nairobi outcome breaks with a near 40-year desire to conclude negotiations on

Box 2: The Sustainable Development Goals

Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts*
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development

* Acknowledging that the United Nations Framework Convention on Climate Change is the primary international, intergovernmental forum for negotiating the global response to climate change

Source: Transforming our world: the 2030 Agenda for Sustainable Development (A/RES/70/1), 2015

a universal basis in the General Agreement on Trade and Tariffs (GATT) and the WTO. ④ Not only does the decision re-introduce a framework for negotiation permitting the conclusion of small group agreements that were a feature of many of the trade rounds prior to Uruguay (1986-1994), it also amounts to a recognition that the pursuit of universal agreements like the DDA is too difficult.

This, in turn, reduces the capacity of developing countries to secure trade-offs from developed countries in return for concessions in new areas as they had during the Uruguay Round when agreements in services, intellectual property rights, and investment measures, among other things, were given in return for agreements on agriculture, and textiles and clothing, as well as in an extension of special and differential treatment.

It is difficult to see how, in an era of mega-regional and plurilateral negotiations wherein the most commercially significant members negotiate market-opening deals among themselves, developing countries are likely to be able to gain significantly. And given that securing trade gains is a prerequisite of the 2030 trade-led growth and development strategy, it is hard to see how the Nairobi declaration will do anything other than hinder the capacity of the multilateral trading system to contribute meaningfully to the realisation of the SDGs.

It is worth bearing in mind that part of the rationale for launching the DDA on the basis of a single undertaking was to enable developing countries to secure the rectification of implementation anomalies and unfinished pieces of business from the Uruguay Round – particularly in agriculture – in exchange for any new trade concessions. Many of these remedial measures are seen by developing countries as important in helping realise the 2030 Agenda.

While it is the case that the Nairobi ministerial declaration commits members to the pursuit of development gains by other means, the only compunction to complete Doha is if there is a desire to open up negotiations in new areas on a multilateral basis. This is small beer indeed.

This outcome fundamentally alters the likely shape of future WTO deals. While the use of a critical mass negotiating mode brought participation and consensus into the core of the Nairobi talks, ironically it resulted in an agreement that enables members to move away from the pursuit of universal agreements wherein a balance of concessions is required that are acceptable to all members, to one in which more narrowly focused piecemeal negotiations can be pursued.

The WTO's negotiating function is now sufficiently problematic, and the organisation too peripherally placed, for the multilateral trading system to contribute as meaningfully to the realisation of the SDGs as had been envisaged.

This less-than-universal approach to negotiating has a long history in multilateral trade and its return signals a move back to a more "mini-lateral" exclusionary mode of agreeing trade deals that has traditionally favoured developed countries over their developing counterparts.

The transformation of the WTO's negotiating function into a much lither machinery is likely to preserve rather than attenuate this pattern. This does not necessarily mean that gains for the poorest and LDCs will be absent from future negotiations, but it does mean that they will almost certainly be of proportionately lesser value.

What now?

The future for the WTO and the multilateral trading system is mixed. On the one hand, it is clear that the Nairobi outcome will energise the multilateral system and enable the WTO to preside over future agreements. On the other hand, and in the absence of a universal endeavour, there is very little to force developed countries to focus on negotiations that are of specific interest to their developing counterparts.

The WTO's negotiating function is now sufficiently problematic, and the organisation too peripherally placed, for the multilateral trading system to contribute as meaningfully to the realisation of the SDGs as had been envisaged. All we can hope for is that members make good on their commitment to pursue development gains by other means. The history of the Doha round and of the multilateral trading system more generally tells us that we should not hold our breath.

❶ See Fukuda-Parr, Sakiko, and David Hulme. "International norm dynamics and the "end of poverty": understanding the Millennium Development Goals." *Global governance: a review of multilateralism and international organizations* 17.1 (2011): 17-36. Also Wilkinson, Rorden, and David Hulme. *The Millennium Development Goals and beyond: global development after 2015*. Vol. 65. Routledge, 2012.

❷ Wilkinson, Rorden. "Fit for Purpose? The Multilateral Trading System and the Post-2015 Development Agenda." (2014).

❸ See Gowa, Joanne, and Soo Yeon Kim. "An exclusive country club: the effects of the GATT on trade, 1950–94." *World Politics* 57.04 (2005): 453–478; Wilkinson, Rorden, and James Scott. "Developing country participation in the GATT: a reassessment." *World Trade Review* 7.03 (2008): 473–510.

❹ The desire to conclude rounds on the basis of a single undertaking was a stated aim of multilateral trade negotiations as far back as the commencement of the Tokyo Round (1973–1979).



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UNFCCC

Taking stock and working towards coherence: Perspectives of a trade-climate negotiator

Peter Govindasamy

A new climate regime calls for further cooperation between the trade and climate communities in order to build a more sustainable future.

The Paris Agreement concluded at the Twenty-First Conference of the Parties to the UN Framework Convention on Climate Change (UNFCCC COP21) in December in Paris, France is significant on a number of counts. It sent a clear and strong signal that countries were strengthening the multilateral system to address the global climate challenge. This is significant as risks of unilateral actions are high without a robust multilateral system. It demonstrated that multilateral environmental agreements based on international consensus are the best way of coordinating policy action to tackle global environmental problems such as climate change.

Paris is also a boost for multilateralism. Notably, success on the climate front was mentioned at the global trade body's Tenth Ministerial Conference (MC10) held the same month in Nairobi, Kenya. At the opening plenary session, WTO Director-General Roberto Azevêdo said, "responding to climate change has long been one of the most intractable problems facing the international community. And after many years of efforts, we now have a deal. We have seen the power of the world acting as one. We should be inspired by that breakthrough here in Nairobi." In light of Paris, WTO members had to deliver some outcomes at MC10, and they did.

Paris is crucial for our collective efforts in combatting climate change. In Paris, parties locked in a goal to keep average global temperature below a two degree Celsius rise from pre-industrial levels, and went further by agreeing to pursue efforts to limit planetary warming to 1.5 degrees Celsius. Linked to this long-term goal, parties agreed to a global stocktake to assess collective progress towards these objectives, which should take place every five years starting in 2023.

Paris is the first comprehensive climate agreement encompassing contributions from all countries. No-one contemplated the submission of so many nationally determined contributions (NDCs) – as the domestic climate action plans that form the basis of the new climate regime are formally known – before COP21. Emissions mitigation efforts are now firmly grounded in domestic action. The process has shifted from the current Kyoto Protocol-type top down commitments to one with a bottom-up approach based on national undertakings.

However, as UNFCCC Executive Secretary Christina Figueres said recently at the World Economic Forum's annual alpine gathering in Davos, Switzerland "...everyone has agreed on the direction of travel so that the next battle is to speed up along that direction of travel. The strength of Paris is that it builds a broad highway and allows countries to choose their lane of choice."

Therefore, as much as it was a momentous event, COP21 was but the start of a process. The intergovernmental process established in Paris for fleshing out key details of the new regime – the Ad Hoc Working Group on the Paris Agreement (APA) – has its work cut out for it. The APA has to oversee the development of modalities and rules for various platforms and mechanisms, get new processes off the ground or shifted into a higher gear, and put the transparency and compliance mechanisms in place.

Paris Agreement

The Paris Agreement is the world's first universal climate change deal and, under its auspices, all nations should contribute to emissions-cutting efforts. The deal also covers multilateral cooperation in areas such as adaptation, climate finance, technology development and transfer, among others.

Complementary role of trade policy

Trade policy has, and must continue to, complement countries' efforts to combat climate change. UNFCCC parties must proactively foster a supportive and open international economic system. As envisioned in the 1992 UNFCCC founding document and in various WTO agreements, such a system will lead to sustainable economic growth and development in all nations, particularly developing countries, by enabling them to better address the climate problem.

This is all the more important in the context of today's globalised trade networks. A supportive and open international economic system will facilitate both North-South and South-South trade opportunities and development in areas that are relevant to addressing climate change such as clean energy. This can only be achieved if countries do not raise barriers to international trade, steer clear of unilateral measures to coerce further climate action, and avoid passing the burden of climate action onto other parties, particularly developing countries.

In parallel, WTO members participating in the Environmental Goods Agreement (EGA) negotiations must work to expeditiously conclude an ambitious deal, which will eliminate tariffs on a range of environmentally-friendly and climate-relevant goods. As non-tariff measures (NTMs) can undermine benefits from tariff liberalisation, EGA participants must also fully respect the spirit and letter of the various WTO agreements relating to these. For example, if the NTM relates to standards, there should be no deviation from the WTO's Agreement on Technical Barriers to Trade (TBT). And an agreement is good only if it continues to remain relevant. The EGA must not be static. It must dynamically cater to contemporary environmental protection needs. The eventual deal must be able to keep up with technological developments. The EGA must have a robust review process to expand the environmental product list so that new innovations can be included.

As a next step, EGA participants can look at complementing the EGA with services, such as those related to energy and environmental concerns. This effort need not start from scratch. EGA participants could look at leveraging work undertaken as part of the plurilateral request and offer process since the WTO's 2005 Hong Kong Ministerial Conference. Ministers decided on that occasion that in addition to traditional bilateral talks, request-offer negotiations should also be pursued on a plurilateral basis, and the results extended on a most favoured nation (MFN) basis. Further to services market access, EGA participants must also address NTMs in services, otherwise known as domestic regulations. A 2009 WTO draft text should serve as a point of reference for disciplines on domestic regulations in services. This draft seeks to strike a delicate balance between export interests, regulatory considerations, and development dimensions. ❶

Trade, climate, development priorities

There are, and will be, interactions between trade and climate "response measures." These will become increasingly pronounced as UNFCCC parties boost their pre-2020 climate actions and implement post-2020 INDCs. Parties' climate response measures tool-box includes trade-relevant policies such as a carbon tax, emissions cap-and-trade, energy efficiency standards, energy labelling, and subsidies for the development of renewable energy. All of these measures will have trade effects and possibly modify competition conditions in various sectors. Moreover, depending on design and application, these measures can be incompatible with the WTO rules. This is illustrated by the number of WTO disputes relating to the trade and energy-climate interface.

Relatedly, beyond the WTO, other international economic institutions are engaged in efforts to complement UNFCCC climate protection priorities. One example is the International Organization for Standardization (ISO)'s work relating to the development of global carbon footprint standards. While international standards are generally preferred to fragmented national and regional initiatives, it is important that these global benchmarks take account of parties' circumstances, in keeping with the spirit of the Paris outcomes. For example, because of their very small size and lack of natural geographical endowments – no mountains, no rivers, no access to the open seas – some countries do not have access

to renewable energy options, including hydro, wind, geothermal, and tidal power. Such nations, by virtue of their national circumstances, have to rely on fossil fuels in their energy mix. These countries are known as "Alternative Energy Dis-advantaged" (AED) in the UNFCCC. While energy efficiency measures taken by AEDs would reduce their carbon footprint, these will likely still remain greater than those of countries with abundant access to renewable energy. The ISO and other relevant international organisations should take this reality into account. This is important as the WTO encourages the use of international standards through Articles 2.4 and 2.5 of its TBT Agreement.

COP21 demonstrated that, if there is political will and good stewardship, outcomes to complex multi-issue negotiating processes can be secured.

Working towards coherence

As envisioned in the 1994 WTO Ministerial Decision on Trade and Environment, there should be no policy contradiction between environmental protection, and promotion of sustainable development and upholding the WTO's open and non-discriminatory system. This policy coherence, however, is not going to happen by luck. Proactive policy coordination and cooperation between members at the multilateral level at WTO's Committee on Trade and Environment (CTE), and between trade and environment officials at the national level, is needed in order to facilitate coherence and mutually supportive climate response measures as well as prevent possible legal inconsistencies from arising. The Intergovernmental Panel on Climate Change (IPCC)'s Fifth Assessment Report (AR5) has also highlighted that "there are numerous and diverse explored opportunities for greater international cooperation in trade-climate interactions. While mutually destructive conflicts between the two systems have thus far been largely avoided, pre-emptive cooperation could protect against such developments in the future."

An important outcome from COP21 is the mandate in paragraph 34 of the decisions giving effect to the Paris Agreement for parties to establish the "modalities, work programme and function" of the Forum on the Impact of the Implementation of response measures to address potential effects that might arise under the new climate regime. These negotiations will be undertaken through the UNFCCC subsidiary bodies. The forum will provide a space for Parties to exchange information, experiences, and best practices in order to raise their resilience to these impacts.

With expert inputs from independent research, and from the WTO secretariat on the interactions of response measures with global trade rules, discussions in the forum can help to inform parties of the effects of climate response measures – positive and negative – on third countries, including compatibility with trade rules. Drawing on these discussions, parties should address the adverse effects of their response measures and where applicable, bring measures in line with the WTO. The role of the forum will become more important as parties implement domestic climate actions to meet the objectives of the Paris Agreement. By harnessing the respective competencies of the WTO and UNFCCC, moreover, the forum could complement efforts to ensure coherence between the trade and climate regimes and help meet sustainable development objectives.❷

This article is based on presentations by the author made at side-events at both COP21 and MC10. These are his personal views.



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❶ For more information on the plurilateral request-and-offer process, and on domestic regulations, see "Negotiations on Trade in Services, Report by the Chairman to the Trade Negotiations Committee" – TN/S/36 dated 21 April 2011

❷ Beyond trade, the forum is envisaged to discuss issues such as economic diversification and transformation; and just transition of the work force, and the creation of decent work and quality jobs, see – FCCC/SB/2015/L.2

CLIMATE CHANGE

What role for trade and investment in the new climate regime?

Ingrid Jegou, Sonja Hawkins and Kimberley Botwright

A landmark universal emissions-cutting deal offers both hope and challenges as stakeholders move to implementation.

In a historic move, parties to the UN Framework Convention on Climate Change (UNFCCC) successfully landed the first multilateral climate treaty since the 1997 Kyoto Protocol during the Twenty-first Conference of the Parties (COP21) held in Paris, France, last December. However, while the adoption of the Paris Agreement and the decisions giving it effect marks a significant achievement for the climate community, the world must now get to the business of implementation.

The Paris Agreement charts a path towards a climate regime capable of moving the global economy off a carbon intensive growth model that is responsible for driving planetary warming. Parties agreed to hold the increase in global average temperature to “well below 2 °C above pre-industrial levels” and to “pursue efforts” for a 1.5 degrees Celsius limit. The aim is to peak global emissions “as soon as possible” and to achieve net-zero emissions in the second half of the century. In order to do so, the deal requires parties to submit so-called “nationally determined contributions” (NDCs) every five years, which should at the minimum outline best-effort mitigation pledges, with increasing ambition over time.

The new deal represents a significant break from previous UN climate arrangements. It provides for universal participation through bottom-up climate action, on the basis of “common but differentiated responsibilities and respective capabilities” (CBDR-RC), in contrast to previous top-down mandated emissions cuts for developed countries only. Under a binding transparency framework, all parties will have to monitor and report on emissions and track progress on achieving their NDCs regularly, which will be subject to a technical expert review and a facilitative, multilateral consideration of progress.

A series of principles, arrangements, and guidelines need to be developed in order to operationalise the Paris Agreement, and these will govern international cooperation across many climate policy areas for decades to come. Deadlines for implementing various features of the Paris deal vary, ranging from consideration at the first meeting of the parties to the Agreement – to be held at the relevant UNFCCC COP following the deal’s entry into force – to specific dates, such as a one-off facilitative dialogue on progress in 2018 to inform the 2020 NDC submissions; the 2023 start of a binding five-yearly “global stocktake” to assess progress towards achieving the Agreement’s objective and targets; and the establishment of a new collective quantified climate finance goal from a floor of US\$100 billion per year prior to 2025.

Building the new climate regime will undoubtedly face many technical, financial, and political challenges. Among the more systemic concerns is whether the deal does enough to galvanise the action needed to avoid the worst impacts of climate change. This will ultimately depend on whether political will is maintained and supportive policies are put in place.

Among these, trade and investment both directly relate to various parts of the Paris deal, and need to be harnessed for the much-needed low-carbon economic transition. The remainder of this article will focus on key details and next steps that matter from a trade and investment perspective.

Carbon pricing

According to the World Bank, the number of carbon pricing instruments already implemented or scheduled for implementation has almost doubled, jumping from 20 to 38 since January 2012.

A boost for carbon markets

COP21 has sent a clear and strong message that carbon pricing will be an integral part of the global mitigation effort under the new climate regime. The Carbon Pricing Leadership Coalition (CPLC) – launched by 21 governments and over 70 businesses and organisations in December – will undoubtedly contribute to the uptake of carbon pricing policies.

In addition to an expansion of domestic carbon pricing, such as the planned introduction of China's national carbon market next year, international cooperation in this area will be of significant interest as countries will likely find themselves in an increasingly ambitious and asymmetric climate regime. Linking carbon markets creates a more harmonised carbon price, thus lowering concerns around competitiveness distortions and fears that industry may relocate to countries with less stringent climate regulations, referred to as "carbon leakage." Linking can also incentivise the uptake of new carbon markets and encourage the reduction of potentially trade-distortive and often sub-optimal support measures in existing schemes. The first carbon market linkages have already been formed by California and Québec, by the [EU and Switzerland](#), and more may soon join rank with interest signalled for EU-China, EU-Korea, and China-Korea linkages.

Article 6 in the Paris Agreement lays the multilateral foundation for such cooperation. Paragraph one broadly recognises voluntary cooperation between parties in the implementation of their NDCs, while paragraph two specifically refers to cooperation involving "internationally transferred mitigation outcomes." It gives countries flexibility to work out different cooperation arrangements outside, yet in parallel to, the multilateral process. Article 6 simply recognises countries' ability to engage in transfers but does not impose COP procedures to this end beyond applying emissions accounting rules that are consistent with those developed under the Paris Agreement.

Through this language the deal provides a hook for the formation of carbon market clubs, an arrangement where groups of countries agree to rules and standards, in exchange for the exclusive right to trade emissions units between themselves. The club's value lies in its ability to scale up climate action by increasing ambition among members and incentivising the adoption of markets by non-members.

New Zealand, supported by seventeen countries, also released a [ministerial declaration](#) after the COP stating the signatories' intention to develop standards and guidelines for international market mechanisms in the post-2020 regime and inviting others to support and apply these. This could provide an additional stepping stone for the formation of carbon market clubs.

Another promising avenue is the [Carbon Market Platform](#), launched by Germany on behalf of the Group of Seven (G7) industrialised countries, with the aim of supporting the spread of carbon pricing policies. The initiative was opened to non-G7 countries during COP21. Together with the CPLC, these processes create significant impetus for the increasing mobilisation of market mechanisms, and send important signals to business and investor communities.

Article 6 also creates a new UNFCCC mechanism to generate tradeable offset credits. Contrary to the Kyoto Protocol's Clean Development Mechanism (CDM), it will be universal in nature, meaning that all countries will be able to generate credits and use these to meet their NDCs. *[Editor's note, see related article in this edition]*

Gearing up for a massive energy shift

One of the most discussed elements of the Paris deal is its global temperature goals, with the aspirational 1.5 degrees Celsius warming ceiling representing a considerable increase in ambition, compared to the previous two degrees Celsius target that has alone guided climate policy thus far. Long advocated for by those most vulnerable to the impacts of climate change, the lower temperature reference was incorporated into the text after receiving support from a "High Ambition Coalition" of countries formed in secrecy six

months prior to the COP, including almost eighty African, Caribbean and Pacific countries, all EU members, and the US.

Keeping the temperature rise to well below two degrees Celsius will require tremendous efforts by all nations to scale up emissions mitigation efforts and to do so fast. A massive energy shift away from climate-warming fossil fuels and to clean energy will be key in this respect.

In addition, negative emissions technologies like carbon capture and storage (CCS) will play an increasingly important role, given that all scientific scenarios under the 1.5 degrees Celsius limit reviewed by the Intergovernmental Panel on Climate Change (IPCC) to date include assumptions about the use of such technologies.

The role of clean energy and energy efficiency are clearly recognised in many of the current NDCs as key areas for climate action. Although the Paris Agreement itself does not include any energy-related provisions, the decisions contain a noteworthy reference acknowledging "the need to promote universal access to sustainable energy in developing countries, in particular in Africa, through the enhanced deployment of renewable energy."

Trade and investment both directly relate to various parts of the Paris deal and will be critical to harness for the much-needed low-carbon economic transition.

Trade policy has an important role to play in securing the necessary energy shift and thus helping countries achieve their mitigation pledges. Removing traditional trade barriers like tariffs and restrictions to trade in services would help decrease the cost of clean energy technologies, thereby making them a more affordable for all, and a viable alternative to fossil fuels. Border obstacle reductions can largely be done on a unilateral basis. This option should also be particularly considered by African countries to help enhance access to renewable energy technologies.

Collaboration between countries is, however, needed to address more complex issues such as cumbersome and uncoordinated standards and their associated testing and certification requirements, or various energy subsidy schemes, many of which are far more trade restrictive than tariffs. The trade talks for an Environmental Goods Agreement (EGA) by 17 WTO members could play a role on this front, despite current limitations in scope and ambition.

Regional trade agreements (RTAs) offer another promising avenue to tackle these issues. Whereas the recently concluded Trans-Pacific Partnership (TPP) could have done more to promote clean energy, other agreements such as the EU-Singapore free trade agreement are more proactive on this matter, and could serve as an inspiration for future RTAs.

Ongoing negotiations like the one for the Transatlantic Trade and Investment Partnership (TTIP) have the opportunity to make a big difference, not only by facilitating trade in climate-friendly technologies between the US and the EU, but also by strengthening environmental laws and enforcement, or promoting additional opportunities for collaboration on climate related issues like fossil-fuel subsidy reform, which can inform future multilateral trade policymaking.

Technology for climate action

Technology development and transfer is a key building block for effective climate action in the context of sustainable development. Technologies for mitigation include those related to energy efficiency, clean energy, carbon capture and storage, hybrid vehicles, or animal waste management, while examples of adaptation technologies include those needed to

tackle sea-level rise such as improved drainage, crop varieties resistant to drought or heat, and improved irrigation systems.

Technology development and transfer is enshrined in Article 4.5 of the 1992 UNFCCC founding document as a tool to enable climate action. To this end, a Technology Mechanism (TM) was established in 2010 at COP16, with the task of enhancing climate technology development and transfer. However, as is well documented, technology development and transfer can prove difficult to harness in practice due to a range of challenges, including access, finance, institutional, and innovation constraints.

It is nevertheless an encouraging sign that COP21 decided to strengthen the TM to serve the Paris Agreement's aims, and provided it with instructions to undertake further work on technology research, development and demonstration, as well as the development and enhancement of endogenous capacities and technologies.

The UNFCCC's subsidiary bodies will additionally elaborate a new "technology framework" to provide "overarching guidance" on the TM's work in the new climate regime. This framework should facilitate the updating of technology needs assessments and the enhanced implementation of their results; the provision of enhanced financial and technical support in this context; the assessment of technologies that are ready for transfer; and the enhancement of enabling environments for and the addressing of barriers to the development and transfer of socially and environmentally sound technologies.

There will also be a periodic assessment to evaluate the effectiveness and adequacy of the support provided to the TM following modalities to be developed and adopted by 2019. The Paris Agreement further creates a link between the TM and the UNFCCC's financial instruments, responding to concerns that technology-based activities have so far been restrained by insufficient funds.

While technology development, diffusion, commercialisation, and transfer ultimately remains a complex and multifaceted process, getting trade and investment policy settings right is an important, although not an easy task. For example, lowering tariffs on clean energy goods, as discussed above, would likely increase their competitiveness and uptake in the global market place.

More generally, trade liberalisation can help to boost the supply of intermediate goods needed for technology innovation in any given economy, and competition in an open market should spur innovation. Indeed, a key feature of the TM is its focus on domestic innovation capacities, although the role of intellectual property rights (IPRs) will likely continue to be a tricky subject in the climate talks. The TM has identified the need for further clarity on IPRs in relation to climate technology development and transfer. Earlier draft versions of the Paris Agreement had included several options on this front, but the final text does not directly address the subject.

Climate action in a global economy

Implementing the Paris Agreement will have effects beyond the climate world due its fundamental ties with economic activity. Under a climate regime marked by universal action on the one hand, driven by self-determined and increasingly ambitious domestic measures on the other, mitigation efforts and policies will vary greatly between countries.

This asymmetry can have impacts on the global economy beyond emissions, both positive and negative, intended and unintended. Carbon pricing instruments or subsidies for low-carbon technologies may, for example, affect relative prices and competitiveness, alter demand and supply, and ultimately impact trade. The link between trade – itself a key driver of growth and development – and climate change will therefore be of increasing relevance. A good understanding and careful consideration of the impacts of so-called climate "response measures" will be crucial to ensure that climate action contributes to, rather than undermines, sustainable development.

Building on some existing general references in the Convention, the Paris Agreement and decisions refer to the impact of response measures in several places. COP21 also decided to continue a response measures forum, formerly initiated at COP17 in an attempt to host a more substantive discussion on the issue, but which had become largely paralysed following the expiry of its two year mandate in 2013. Parties agreed to improve the forum and adopted a work programme and technical modalities to this end. The forum will continue once the Paris Agreement takes over from the current regime, though for this purpose the modalities, work programme, and functions remain to be developed by the UNFCCC's subsidiary bodies over the coming years.

These developments are a positive sign for an issue where a more specific conceptual discussion has long proven difficult due to its sensitivity and controversy, not least the perception that it serves the interests of fossil fuel-dependent economies, and may raise compensation obligations. Parties now have an opportunity to pick up and deepen much-needed dialogue and exchange on response measures, including on trade and climate change interactions. However, discussions should also take place within the trade world, as well as between the climate and trade communities.

International transport emissions

The final Paris Agreement contains no references to tackling emissions from international aviation and shipping. Given that these together account for around five percent of global emissions, and are forecast to grow by two to five percent per year if no further abatement actions are taken, this decision was criticised by many stakeholders. The close link between trade and international transport means that, from a trade policy perspective, tackling transport emissions will be key to making trade more sustainable.

Work on international transport emissions is on the docket for other multilateral bodies. Members of the International Civil Aviation Organization (ICAO) have pledged to develop a proposal for the first-ever global market-based measure (MBM) for aviation emissions by September, to come into effect at the end of the decade, as part of an aspirational goal to achieve carbon neutral growth from that time onwards.

Meanwhile, the International Maritime Organization (IMO) is in the process of elaborating a global data collection system to analyse energy efficiency, including guidelines on fuel use information. This will be considered at a meeting in April along with revisiting last year's proposal from the Marshall Islands for a sector-wide emissions reduction target.

The Paris outcome could provide important stimulus for action in both arenas. Failure to make meaningful progress might, meanwhile, see parties such as the EU resort to unilateral solutions to address international transport emissions.

Opportunities and challenges

The new climate regime presents both opportunities and challenges. Through the universal commitment to ambitious targets there is unprecedented momentum to transition from our current high-emission trajectory to a truly low-carbon society. In addition to avoiding the worst impacts of global warming, this could result in a host of other benefits, from new economic opportunities to improved health. At the same time, the transition will not be simple. The bottom-up nature of the new climate regime raises doubts about countries' ability to collectively achieve the necessary level of ambition, while the absence of a strong enforcement mechanism poses a challenge for ensuring compliance.

Implementing the Paris Agreement must also look to increase interactions between the climate and trade regimes. Climate measures under the new asymmetric regime will likely test the limits of existing trade rules, something policymakers will need to consider and deal with. However, more than anything, climate efforts should actively mobilise trade policy, including through liberalising trade in clean energy technologies, fostering innovation and technology transfer, as well as informing and facilitating club-like governance arrangements in the area of carbon markets. A proactive use of trade and trade policy can help the world achieve our low-carbon transformation imperative.

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EMISSIONS TRADING SCHEMES

What's ahead for carbon markets after COP21?

Anthony Mansell

The new climate deal includes several provisions relevant to market-based emissions reductions efforts.

At a UN conference in Paris, France in December countries agreed to a new framework for international cooperation on climate change. The "Paris Agreement" ties together nationally determined contributions (NDCs) with international rules and procedures to ensure transparency and promote rising ambition. Paris also provided a future for international market mechanisms as a tool for countries to fulfil their NDCs. Many NDCs submitted as part of the Paris process demonstrate an enthusiasm for market approaches. Sixty-five governments say they will use international markets and another 24 will consider using them in the future. Many groups such as the Carbon Pricing Leadership Coalition (CPLC) urged support in Paris for the use of market mechanisms and a ministerial declaration issued by 18 governments at the close of the conference was designed to send "a clear signal to the global carbon market...that there is an important role for markets in the post-2020 period."

The Paris Agreement includes provisions that can advance carbon markets in two ways: by ensuring there is no double counting when countries engage in emissions trading, and by establishing a new mechanism to facilitate trading. In both areas, however, the text provides only broad parameters and important details remain to be decided. This article addresses the current state of carbon markets, their history in international climate agreements, and relevant provisions of the Paris deal – including issues still to be negotiated before it comes into effect.

Carbon market context

Carbon pricing is currently in place in 38 jurisdictions, according to the World Bank, encompassing both carbon taxes and emissions trading schemes (ETS). A number of additional policies are scheduled to enter force between now and 2020 including carbon taxes planned for Chile and South Africa. Ontario will develop an ETS similar to neighbouring Québec and US states Washington and Oregon are considering the same. In terms of scale, the most significant will be a new national ETS in 2017 across China, the world's largest greenhouse gas (GHG) emitter.

Not all carbon market programmes seek to trade internationally; some focus solely on domestic emission reductions. Nevertheless, bottom-up linkages are already occurring. For example, California and Québec have linked their cap-and-trade programs, making carbon allowances and offsets fungible between programs. There are also ongoing discussions in California about using sector-based offsets that reduce deforestation – known as REDD+ – from Acre, Brazil and Chiapas, Mexico. The EU Emissions Trading System (EU ETS) and Swiss ETS have agreed a link, pending ratification by each. In addition, the International Civil Aviation Organisation (ICAO) is to decide by the end of this year on the design of a global market-based measure (MBM) to reduce emissions from aviation. The MBM would come into force in 2020, around the same time the Paris Agreement aims to be in place.

History of international market mechanisms

Market-based approaches are not referred to in the founding 1992 UN Framework Convention on Climate Change (UNFCCC) document, but were integral to the design of its first sub-agreement, the 1997 Kyoto Protocol. Under Kyoto, participating developed countries have binding emission limits – "quantified emission limitation and reduction commitments" – inscribed in Annex B of the agreement. They are allocated "assigned amount units" (AAUs) in line with those targets and, to enable least-cost emission

reduction, are permitted to trade AAUs and other certified emission units. Kyoto established three methods for transferring units – either emission allowances or emission reductions – between countries. International Emissions Trading (IET) allows countries that have reduced emissions below their targets to sell excess allowances to countries whose emissions exceed their targets. Joint Implementation (JI) allows Annex B countries to earn emission reduction units (ERUs) through emission reduction or removal projects in other Annex B countries. The Clean Development Mechanism (CDM) allows Annex B countries to earn certified emission reduction (CERs) credits through emissions-reduction projects in developing countries. Emissions trading under the Kyoto Protocol relies on international oversight. All transfers are tracked using a registry called the International Transaction Log (ITL). A common accounting standard applies to all countries with emission targets. An executive board must approve the methodology CDM projects propose using. Finally, under the Protocol, only the international transfers it sanctions are considered legitimate to fulfil a country's emissions-cutting obligations.

The Kyoto model provides important infrastructure for an international carbon market. Common accounting procedures ensure that any transfer meets an internationally agreed level of environmental integrity. An AAU allocated to Switzerland represents a metric tonne of emissions measured using the same standard as an AAU allocated to Norway. Common offset methodologies give a blueprint to replicate in projects across the globe. The CDM has been able to issue 1.4 billion credits – each representing a metric tonne of avoided emissions – and mobilise over US\$400 billion in investment using this international rulebook for managing offset projects. Moreover, when countries submit their national GHG inventories, any recorded transfers can be verified by checking the international registry thereby reducing potential for emissions double counting. The Kyoto Protocol's market mechanisms have, however, lately encountered shrinking participation. One reason has been a reliance on the EU ETS as a source of demand, where low economic growth and restrictions placed on the types of credits has created a generous oversupply of CDM credits.

The Paris Agreement and carbon markets

The Paris Agreement establishes a fundamentally different framework from Kyoto. Rather than binding emission limits, which readily lend themselves to market approaches, the new climate regime requires all parties to undertake nationally determined contributions of their own choosing. As of writing, 187 countries had put forward NDCs, presenting various 2020-2030 target reduction dates. These contributions are not legally binding and come in many forms, ranging from absolute economy-wide targets to peaking years, carbon intensity reductions, and so on. A new transparency system will apply to all parties, but will be less prescriptive than the accounting of AAUs that underpinned the Kyoto Protocol. Fitting market approaches into this new landscape poses a different set of challenges. In a literal sense, the Paris Agreement is silent on markets, in that the term does not feature in the text. This is not unusual, the Kyoto Protocol also did not include the term. Instead, the new agreement houses markets under Article 6, geared towards addressing "voluntary cooperation" between parties in achieving their NDCs.

Article 6 recognises that parties may choose to pursue voluntary cooperation in implementing their NDCs. If these "cooperative approaches" involve the use of "internationally transferred mitigation outcomes," or ITMOs, robust accounting shall be used to avoid double counting. The use of ITMOs are voluntary and authorised by participating parties. The same article also establishes a mechanism to contribute to GHG mitigation and support sustainable development. The new mechanism will be under the authority of meeting of parties to the Paris Agreement. It has four listed aims including to promote greenhouse gas mitigation while fostering sustainable development; incentivise and facilitate participation by public and private entities who are authorised by a party; contribute to reduction of emissions level in host country, which can also be used by another party to fulfil its NDC; and deliver an overall reduction in global emissions. In addition, emission reductions occurring from the new mechanism must not be double counted. A share of proceeds will be used to cover administrative expenses and assist developing countries to meet the costs of adaptation, which is similar to the share of

COP21 outcomes

The Paris Agreement is a binding multilateral climate deal adopted by countries under the umbrella of the UN climate talks. Each article in the agreement is complemented by a series of "decisions" taken by the UNFCCC's Twenty-first Conference of the Parties (COP21) that should help to operationalise the new regime.

proceeds under the CDM, a portion of which was channelled to the Adaptation Fund. Article 6.8 and 6.9 contain a framework for promoting "integrated, holistic and balanced non-market approaches."

So what comes next? When the CDM, JI, and IET were established under the Kyoto Protocols, the details were not finalised until the Marrakech Accords four years later. Similarly, the COP21 outcome sets a work plan for negotiators to deliberate and decide how the Paris system will work, to be addressed in upcoming UNFCCC meetings.

Cooperative approaches accounting

The existing UNFCCC accounting system is bifurcated between developed and developing economies. Under the Convention, GHG inventories are required each year for industrialised countries, while these are included in national communications submitted every four years for developing nations. The Paris Agreement establishes an "enhanced transparency framework for action and support," with built-in flexibility to take into account national capacities. Under this framework each party must submit a national greenhouse gas inventory. An accompanying decision elaborates that all countries – except least developed countries and small island developing states – shall provide these inventories at least biennially.

On markets the Subsidiary Body for Scientific and Technologic Advice (SBSTA) will develop and recommend guidance on how to apply "robust accounting" for cooperative approaches, for adoption at the first session of governing body of the Paris Agreement, known as the CMA. Countries will need to be "consistent" with this guidance, but not necessarily follow it strictly. How to determine if a country's accounting is consistent is not clarified in the Paris agreement, though it will likely be reviewed as part of the new transparency system.

Pending decisions will provide greater clarity on a number of issues. On ITMOs, it will be useful to define the scope of what can be considered a "mitigation outcome" transferred between countries. Under Kyoto, AAUs serve as a unit of account for transferring obligations, but also define the scope of accepted international transfers. In other words, only transfers involving AAUs are accepted when submitting national GHG accounts. Parties will also need to consider whether other forms of co-operation – such as Japan's Joint Crediting Mechanism (JCM), which is similar to the CDM, or the bilateral linking of two ETSs – would be considered ITMOs. Transfers involving one or more countries without absolute economy-wide targets could complicate the methodology needed to avoid double counting. On the accounting system, the CMA could take an active role in facilitating transfers, including through a central registry similar to the ITL. Alternatively, in a more decentralised system, it may require that parties maintain their own accounting – such as double-entry bookkeeping – and rely on the transparency arrangements to provide oversight. The provision referencing ITMOs also requires parties to "promote sustainable development and ensure environmental integrity." The SBSTA guidelines will need to define these terms and how countries will meet them when undertaking transfers.

Paris "mechanism"

Another accompanying COP decision recommends that the CMA adopt "rules, modalities, and procedures" for the new mechanism at its first session. The parameters for these are: voluntary participation authorised by each party involved; real, measurable, and long-term benefits related to the mitigation of climate change; specific scope of activities; reductions in emissions that are additional to any that would otherwise occur; verification and certification of emission reductions resulting from mitigation activities by designated operational entities; experience gained with and lessons learned from existing mechanisms and approaches under the Convention.

This leaves much to be hammered out by governments. A key area to address will be the type of system. The new mechanism may continue to credit at a project level. A Brazilian proposal in Paris envisioned a mechanism similar in scale to the CDM, referred to as an "enhanced CDM," or "CDM+." Conversely, in prior discussions for a "new market

mechanism" (NMM), both the [EU](#) and the [Environmental Integrity Group](#) negotiating group have proposed a scaled-up or sector-based crediting mechanism.

The future of the Kyoto flexibility mechanisms is also unclear, in particular whether the new mechanism will succeed the CDM and JI, or will sit alongside either of these. The Paris Agreement does not mention CDM or JI, but notes that the new mechanism should draw on the experience gained from existing mechanisms. Similarly, it is unclear whether units generated under the Kyoto mechanisms will be eligible for compliance after 2020 and if so, whether they will need to be converted to an alternative credit type to conform with credits issues under the new mechanism. Negotiators may also decide to transfer project methodologies over from the CDM to apply to the new mechanism, discard some of these existing approaches, or move away from project level crediting altogether as noted above. They may also consider other methodologies used outside the UNFCCC. Finally, the Paris Agreement frames sustainable development on a par with GHG mitigation, so parties may require measured sustainable development outcomes to be eligible for crediting.

Parties will need to decide on governance arrangements for the new mechanism. The CDM is managed by an [Executive Board](#) of ten government officials, comprising one member from each of the five UN regional groups, two other members from parties included in Annex I, two other members from non-Annex I parties, and one representative of the small island developing states. Similarly, JI has a supervisory committee (JISC) to oversee the verification of projects. The new mechanism could incorporate governance from either of these existing platforms. Guidance on rules and procedures will also need to be clarified. The CDM and JI have existing procedures for developing projects that are ultimately credited. Countries could transfer these rules to the new mechanism or adopt new procedures.

Given the breadth of views across governments on the role of market mechanisms, reaching conclusions on these issues will be challenging. The slow progress since 2011 in the UNFCCC toward a "framework for various approaches" (FVA) and NMM demonstrated the difficulties in gaining consensus on the subject. Nevertheless the importance afforded to international markets by many countries in their NDCs implies there is a strong impetus to find a workable system for international transfers.

Efforts beyond UNFCCC

It is possible that initiatives undertaken outside the UNFCCC will inform efforts within. The Carbon Market Platform established under the G7, for example, is a [strategic political dialogue](#) that can complement the UNFCCC in developing guidance on accounting for international transfers. The system that ICAO builds could seek consistency with the Paris Agreement. For example, it would be beneficial if credits used for compliance in the UNFCCC and ICAO are fungible, to prevent project developers choosing between separate customers. It remains to be decided what types of international credits will be used for compliance in the ICAO MBM, but this should take into account the emergence of the new mechanism. In addition, the accounting system used by ICAO should at least be consistent with that used under the Paris system, insofar as this would avoid the double counting of units used for compliance in both ICAO and the UNFCCC.

Unfinished business

Paris reaffirmed carbon markets as an instrument for meeting climate goals. Outside of the agreement itself, groups such as the CPLC are building strong momentum for market approaches as a key component to meeting the mitigation targets set by NDCs. COP21 did not, however, finalise a new system of international carbon markets or cooperative approaches. Accounting for ITMOs and other forms of voluntary cooperation require elaboration and guidance. The role of the new mechanism remains to be negotiated. And if these talks become stalled, as was the case for the FVA/NMM deliberations, interested countries may pursue bottom-up linkages elsewhere rather than continue to search for solutions within the UN climate talks. The pace and extent of progress under the UNFCCC will determine how central a role multilateral platforms will play on these issues in the future and the prospects of a truly global carbon market.



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FISHERIES

US to ratify Port State Measures Agreement, proposes fish traceability rule

A new multilateral agreement geared towards tackling illegal fish trade moved a step closer to entry into force in February.

On 10 February, US President Barack Obama approved the ratification of the Port State Measures Agreement (PSMA), a key international accord designed to prevent catch from illegal, unreported or unregulated (IUU) fishing from being landed and entering national and global markets.

Illegal and unreported fishing is estimated to be worth between US\$10 billion and US\$23.5 billion every year. By ratifying and implementing the PSMA, governments aim to gradually reduce the number of "ports of convenience" available for illegal fishers to bring their catch to market, increasing the costs of illegal activity and making it less profitable.

The US action will bring the number of parties to the agreement to 20, with 25 required for its entry into force. The accord was adopted at a UN Food and Agriculture Organization (FAO) Conference in late 2009. The Port State Measures Agreement requires port authorities to restrict access to ports for foreign vessels that have engaged in IUU fishing, such as those that are listed as IUU vessels by Regional Fisheries Management Authorities.

These authorities will also be required to inspect foreign fishing vessels for illegal catch once they are in port. Because non-US-flagged fishing vessels are already prohibited from landing catch at most US ports, the direct impact of Washington's ratification, according to authorities, will likely be to prevent IUU-listed transport and support vessels from entering US ports. The move is one of a series of steps set out last year in an action plan of a US Presidential Task Force on Combating IUU Fishing and Seafood Fraud, designed to prevent IUU catch from accessing the world's third largest market for fish products.

Fish traceability rule proposal

Earlier this month, US authorities published a proposed rule establishing the basis of a traceability requirement for fish and fish product imports into the North American country. Released on 4 February by the National Oceanic and Atmospheric Administration (NOAA), the proposed rule would require harvest, landing, and chain of custody information to be provided for species at risk of IUU fishing. The proposal is now open for public comment through early April.

"This proposed rule is a critical first step in our efforts to create a comprehensive traceability programme designed to prevent products from illegal and fraudulent fishing entering US commerce," said Catherine Novelli, under-secretary of state for economic growth, energy, and the environment.

"Starting with our discrete list of priority seafood species, we will create an effective programme to protect against practices that undermine the sustainability of our shared ocean resources," she added.

A distinct EU fishery product catch certificate and sanctions scheme to combat IUU fishing has been in place since 2010. While the two systems appear to have very different designs, comments invited on the proposed US rule specifically include "how some of the elements inherent in the EU's IUU regulations may be adapted to this rule as a means of facilitating compliance and reducing burden for exporters, either through the design of the traceability process itself or as part of a trusted trader programme."

ENERGY

US, Canada, Mexico eye increased collaboration in clean energy

Following December's UN climate agreement, countries are ramping up clean energy development, including through regional collaboration.

The US, Canada, and Mexico have agreed to take a series of steps aimed at boosting North American climate and energy cooperation – an announcement that was hailed as a potential step toward a future joint energy strategy between the trading partners. The memorandum of understanding, inked in February by the countries' respective energy ministers, focuses mainly on sharing data across various areas, ranging from energy efficiency to renewable energy technologies.

"This memorandum takes the important strides we've made in recent years towards a continental approach to energy and expands our relationship in support of an even more ambitious clean-energy environmental agreement," said Canadian Natural Resources Minister Jim Carr.

Along with this draft framework, the three countries – which are already partners across a host of other forums, including a clean energy working group as well the North American Free Trade Agreement (NAFTA) – have also launched a web-based platform that demarcates all of their energy infrastructure. "This is significant because it allows us to think about continental energy integration in a new light," said the Canadian official.

"The trilateral relationship certainly is not missing a beat. If anything, I think it is accelerating even more with the very strong Canadian commitment in the areas of energy, environment, and innovation," said US Energy Secretary Ernest Moritz, according to comments reported by the Financial Post.

Building on Paris

This framework on clean energy development comes hot on the heels of the recently-concluded Paris climate accord, adopted multilaterally during the UN Framework Convention on Climate Change's (UNFCCC) Twenty-first Conference of the Parties last December.

In addition, the three countries were among 20 that clinched a Mission Innovation agreement this past November at the start of the Paris conference, eyeing a scale-up in clean energy innovation to improve its affordability, including through measures such as information sharing and increased government investment.

Environmental groups have lauded the North American development as significant for various reasons, particularly in the wake of both the Paris accord as well as the US' recent rejection of the Keystone XL pipeline.

"It's the fact we are recognising that our energy relationship is more than just oil, and there is more to the Canada-US relationship than the Keystone pipeline," said Keith Stewart, head of Greenpeace Canada's climate and energy campaign.

The Keystone project had been proposed by TransCanada, with the goal of transporting crude oil and bitumen from the Canadian province of Alberta to US refineries. After years of heated debate and multiple delays, it was ultimately rejected by US President Barack Obama in November 2015 on environmental and economic grounds.

AVIATION

UN aviation environment committee reviews emissions reduction plans

The UN civil aviation body in September will consider a proposal for a market-based platform to reduce the sector's emissions starting from 2020.

A committee tasked with leading environmental protection efforts at the UN's civil aviation body wrapped up a fortnight of talks on Friday 12 February that included a review of work related to developing a proposal for a market-based measure (MBM) to reduce aviation emissions starting from the end of the decade.

The 191 members of the UN International Civil Aviation Organization (ICAO) agreed in 2013 to outline an aviation emissions reduction platform in time for the body's triennial gathering this coming September.

During the proceedings involving the original labelling regime, the Appellate Body in May The Committee on Aviation Environmental Protection (CAEP) additionally agreed in February to a set of binding design standard for airplane carbon dioxide emissions after six years of talks, a move hailed by some observers as a positive sign of increasing climate ambition for the sector.

The CAEP also considered work on sustainability criteria and life-cycle analysis for sustainable alternative fuels, approved a methodology to quantify air cargo CO2 emissions, as well as considered items related to aircraft noise.

"The CEAP is an invaluable asset to ICAO's work across the full basket of measures to reduce aviation's impact on the environment, inclusive of emissions and noise mitigation," said ICAO Council President, Dr. Olumuyiwa Benard Aliu, in a [press release](#) at the close of the session.

Growing emissions

Aviation emissions account for some two percent of the world's total annual CO2 output, around 12 percent of transport emissions, and are expected to [expand rapidly](#) by 2050 if no further abatement actions are taken.

However, while national aviation emissions are covered under domestic reduction policies and emissions inventories, international emissions that make up the majority are not. With references to aviation emissions dropped from the final text of a multilateral climate deal struck in December in Paris, France, many stakeholders are now closely eyeing ICAO's work in this area.

"The eyes of the world are on airlines, and on ICAO, to drive substantial concrete progress on reducing emissions," [said](#) UN Secretary-General Ban Ki-moon during a visit to the CAEP meeting.

"We need more sustainable energy alternatives for fossil fuels. Airlines must increase their use of energy-efficient technology. Airport buildings and transport infrastructure must be sustainable and climate-friendly. ICAO is showing the way."

ICAO members have set an aspirational goal to improve fuel efficiency by two percent annually and stabilise net global CO2 emissions at 2020 levels. The MBM and new design standard are slated as a key part of achieving these goals.

“Carbon Market Watch has hope that discussions will lead to a cap on aviation emissions and the creation of a robust global market-based measure,” said group representatives Kat Watts and Kelsey Perlman at the start of February, commenting on the ongoing MBM proposal process.

“The eyes of the world are on airlines, and on ICAO, to drive substantial concrete progress on reducing emissions.”

“This is achieved by only allowing projects that reduce emissions that are additional to the status quo, permanent, verifiable, and completely and accurately quantified and monitored,” the environmental group explained.

Next steps for aviation emissions market

Following a mandate from the ICAO Assembly, UN officials should make a recommendation on the global MBM, drawing on a series of workshops across five regions and technical studies undertaken over the last two years.

The recommendation should include key design elements, identify ways to take into account special circumstances and respective capabilities, and plan for implementation in the context of emerging technologies, operational improvements, and so on. The February CAEP meeting reportedly outlined possible criteria for offsets within the new scheme.

Delegates will likely consider the recommendation during a high-level meeting on the global MBM scheduled to take place from 11-13 May in Montreal, Canada, with the purpose of hammering out a draft text to send to September’s ICAO Assembly.

However, discussion on aviation emissions reductions and international cooperation around these, has been controversial in the past. Failure to make progress on the subject under ICAO led the EU to insert aviation into its Emissions Trading System (ETS) in January 2012, a move subsequently panned by over two dozen countries, including the US, China, and Russia who alleged a breach of WTO rules.

The aviation component in the EU ETS would have required airlines landing in or taking off from the 28-nation bloc to surrender carbon permits equal to emissions over the entire flight, in effect, a unilateral effort to regulate aviation emissions.

After escalating tensions on the matter Brussels agreed to “stop the clock” on including in the ETS all flights landing or taking off outside its borders, and EU lawmakers later extended this exemption until 2017, with only intra-European flights currently covered.

Experts eyeing the ICAO September meet have suggested that plans by China to include aviation in its national carbon market – due to come online next year – and a growing momentum behind climate action following the landmark December climate meet augur well for a positive outcome this time round.

Brussels has nevertheless warned that insufficient progress on the global MBM plan this year could see it consider restoring its original aviation ETS rule.

New aircraft emissions standards

Although several experts rate the MBM as the primary tool to reduce aviation emissions, the new CO2 design standard was welcomed by many in February as a useful contribution. The standard will, once adopted, be fully applicable to all new plane designs starting in 2020; to planes currently in production from 2023, and to all planes produced from 2028 onward.

Some green groups, however, said that the new CO2 design standard could have been far stricter since these initially only apply to new models.

The newsroom

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Obama targets clean energy in budget

US President Barack Obama put forward a series of clean energy finance proposals as part of his final budget request before leaving office. The proposed US\$4.1 trillion fiscal budget includes a plan for a "21st century clean transportation system," to be funded by a new fee levied on oil, as well as a bid to increase federal investment in clean energy research and development (R&D) from US\$6.4 billion to US\$12.8 billion by 2021.

The boost to R&D funds comes after the US and 19 other economies – making up 80 percent of global clean energy R&D budgets – committed to doubling their current investment in the sector during a UN climate meet held last December in Paris, France. In Paris, 28 major investors also backed "Mission Innovation," as the initiative is known, pledging to invest patient capital in early-stage technology development from participating economies. The Obama Administration budget proposal makes the US the first Mission Innovation economy to outline plans to hit the clean energy R&D spending target.

Ambitious plans to electrify Africa launched

The African Development Bank Group unveiled ambitious plans to power Africa during the World Economic Forum (WEF) annual meet in Davos, Switzerland in late January. The New Deal on Energy for Africa will unite the private sector and local governments on energy capacity building projects to achieve universal energy access in Africa by 2025.

"It is time to take decisive action (...) to light up and power Africa and accelerate the pace of economic transformation, unlock the potential of businesses, and drive much needed industrialisation to create jobs," said the President of the African Development Bank, Akinwumi Ayodeji Adesina at the launch. The New Deal has four major goals for electricity expansion by 2025: add 160 gigawatt of on-grid generation; create 130 million new on-grid connections – 160 percent more than today; increase off-grid generation to add 75 million connections – 20 times current levels; and increase access to clean cooking energy for around 130 million households.

APEC members slash tariffs on green goods

Members of the 21-nation Asia-Pacific Economic Cooperation (APEC) alliance have released documents detailing the implementation of their joint pledge to cut most-favoured nation applied tariffs to five percent or less by 2015 on environmentally-friendly goods contained under 54 product categories.

The products involved range from wind turbines and solar panels, to water filtering machinery and oceanographic, hydrological, or meteorological surveying equipment.

The "implementation lists" provide information on tariffs levied last year and for 2016, although some also do so for 2012, reflecting early implementation. For the most part, goods are identified at the six-digit level of World Customs Organization (WCO)'s Harmonised-System (HS) tariff category nomenclature; by a national tariff line (NTLs); and with an accompanying description, in order to provide clarity where APEC members agreed only to liberalise very specific items.

US Supreme Court halts Obama clean power plan

In a setback to US President Barack Obama's domestic climate action efforts, the nation's Supreme Court agreed to halt the enforcement of the Environmental Protection Agency's Clean Power Plan (CPP), at least until various legal challenges have been resolved. The CPP is geared towards slashing emissions from the nation's power plants 32 percent below 2005 levels by 2030. It allows states to define their own strategies for meeting the cuts, but 27 mostly Republican-led states have sought to block the federal rule, citing an alleged overreach of executive authority.

The court decision implies that states will not be required to file an implementation plan in September, as initially envisaged, but interested ones can still do so. A Washington, DC appeals court will hear oral arguments in June on whether the CPP is lawful, although some experts expect the case to stretch into next year, a process likely to be closely watched by the international community as an indication of the US' future climate action ambitions.

EU and Switzerland set to link carbon markets

After nearly five years of talks, the EU and Switzerland have announced the conclusion of a deal linking their respective emissions trading schemes, in a move that will allow covered entities in both systems to trade emissions permits with each other.

Set up in 2008, the Swiss scheme includes around 55 companies, and last year covered 5.5 million tonnes of carbon emissions. By comparison, the EU's Emissions Trading System (ETS) launched in 2005 is currently the world's largest carbon market, regulating some 11,000 power stations and manufacturing plants representing around two billion tonnes of carbon emissions.

Most emissions trading schemes work by setting a cap on total emissions and requiring the surrender of emissions permits by participating factories, power plants, or other companies. These may then trade emissions allowances with each other as needed. Experts argue that linking schemes could help to address competitiveness and carbon leakage concerns related to different levels of climate action between nations. Negotiations for the EU-Swiss carbon market deal were initially launched in 2011, but suffered a few setbacks along the way.

CITES committee deploys trade bans

An international committee charged with helping to regulate wildlife trade agreed during a meeting in January in Geneva, Switzerland to impose trade suspensions on a number of countries as a result of non-compliance with the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

According to experts, the meeting demonstrated parties' willingness to make full use of the Convention's available compliance measures in order to encourage legal, sustainable, and traceable wildlife trade.

The 19-member standing committee meeting, attended by nearly 500 participants from a cross-section of governments, civil society, and academia, also addressed a long list of wildlife trade agenda items ranging from sustainable livelihoods, captive breeding, the implementation of new shark listings, traceability, regulatory measures, better science, and other species-specific issues. The body agreed to send a number of draft decisions for consideration to the Seventeenth Conference of the Parties to CITES (COP17) due to be held at the end of September in Johannesburg, South Africa.

South Africa releases rhino poaching figures

A total of 1175 rhinos were poached last year in South Africa, representing a slight dip in 2014 figures, according to statistics released by the government.

"Considering that this is despite escalating poaching pressure – and in the face of an increased and relentless rise of poaching activity into protected areas – this is very, very good news, and offers great cause for optimism," Edna Molewa, South Africa's environment minister, told a press briefing.

Molewa highlighted a range of efforts undertaken by South African government officials, the private sector, and civil society to help tackle the rhino poaching, including a total of 317 poaching-related arrests, continued implementation of an "intensive protection zone" in the iconic Kruger National Park, and training programmes designed to catch smuggled horn at ports of entry and exit.

Rampant poaching in the country that is home to some 19,700 rhinos – around 80 percent of the world's remaining wild population – has raised alarm in recent years. Last year's kills nearly doubled the tally in 2012.

TransCanada announces plans for ISDS claim

TransCanada Corporation, the major North American energy company which had proposed the construction of the Keystone XL pipeline, announced in January that it has filed a notice of intent to initiate a multibillion-dollar investor-state claim against the US government under the North American Free Trade Agreement (NAFTA). The move, the company said on 6 January, came in response to the Obama Administration's decision in late 2015 to deny a Presidential Permit for the cross-border pipeline. TransCanada has also challenged the constitutionality of the decision in a US domestic court.

The news brings the controversial pipeline project back into the limelight, in an already difficult atmosphere in Washington given election-year politics; separate efforts by US President Barack Obama to push for the ratification of the Trans-Pacific Partnership Agreement; and the scepticism in some quarters over the merits and design of investor-state dispute settlement provisions in trade deals. The Keystone saga dates back to September 2008. The 22-year old NAFTA pact between the US, Canada, and Mexico, includes an investment chapter outlining how dispute settlement procedures should work.

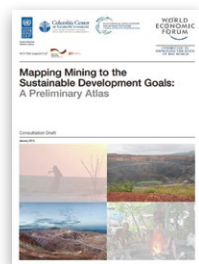
Publications and resources

Suggested publications and resources do not necessarily reflect the views of ICTSD



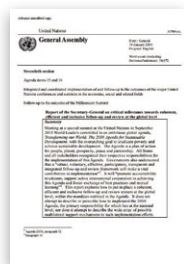
OECD Journal: Financial Market Trends – OECD – February 2016

This edition of the Organisation for Economic Co-operation and Development (OECD)'s semi-annual Financial Market Trends includes articles on finance and climate and on financial instruments for managing disaster risks related to climate change. Both papers sketch out the relevance of climate change for various aspects of the financial sector, whether managing capital reallocation, or improving the use of insurance policies. The articles can be accessed at <http://bit.ly/1muhubl>



Mapping Mining to the Sustainable Development Goals: A Preliminary Atlas – UNDP, CCSI, SDSN, WEF – January 2016

This document produced by the UN Development Programme (UNDP), the Columbia Center on Sustainable Investment (CCSI), the Sustainable Development Solutions Network (SDSN), and the World Economic Forum (WEF) maps the links between mining and the newly adopted Sustainable Development Goals. The research aims to encourage mining companies of all sizes to incorporate SDG aims into business operations. The document can be accessed at <http://bit.ly/1mucGy4>



Report of the Secretary-General on Critical Milestones Towards Coherent, Efficient, and Inclusive Follow-up and Review at the Global Level – UN – January 2016

This report explores how to put in place a coherent, efficient, and inclusive follow-up and review system at the global level for the UN's new 2030 Agenda for Sustainable Development, as mandated by paragraph 90 of that document. The report offers suggestions on the organisation of the annual High-Level Political Forum that has been tasked with overseeing a network of follow-up and review processes. . The report can be accessed at <http://bit.ly/1Wysxsz>



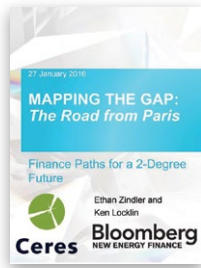
Mitigating Droughts and Floods in Agriculture: Policy Lessons and Approaches – OECD – January 2016

This report from the Organisation for Economic Co-operation and Development (OECD) identifies key areas of improvement for policy responses, and coordination across policy domains, designed to maintain agricultural productivity in the face of droughts and floods. The increasing frequency of these extreme weather events as a result of climate change is likely to present a major policy concern, further exacerbated by rising population figures and demands for food, feed, fibre, as well as energy. The report can be accessed at <http://bit.ly/20vKYjM>



The New Plastics Economy: Rethinking the Future of Plastics – WEF – January 2016

This report from the World Economic Forum (WEF) explores the intersections between the circular economy as a way to increase prosperity while reducing demands on finite raw materials, with a particular focus on plastics and plastic packaging. In the context of extended global plastic packaging production and after-use value chains, the report makes the case for rethinking the current plastics economy, and identifies a number of knowledge gaps and open questions that need to be further explored. The report can be accessed at <http://bit.ly/1Ou5wDU>



Mapping the Gap: The Road from Paris – Ceres, BNEF – January 2016

This report, published by Ceres and Bloomberg New Energy Finance (BNEF), examines the total volumes of capital that are required to fund clean energy power project development in the electricity sector in the context of a low carbon economic transition. The report suggests that keeping the world below a two degrees Celsius rise from pre-industrial levels, as envisioned by a new climate agreement adopted in December in Paris, France, represents a US\$12.1 trillion investment opportunity. The report can be accessed at <http://bit.ly/1OZ3N7K>



Harnessing Emerging Technological Breakthroughs for the 2030 Agenda for Sustainable Development – UNCTAD – January 2016

This policy brief from the UN Conference on Trade and Development (UNCTAD) looks at how the expansion of the digital revolution might bring development benefits while also reflecting on ways to mitigate challenges around inclusiveness. The policy brief argues that achieving the Sustainable Development Goals (SDGs) will require realising the potential of new innovations for economic, social, and environmental ends, and provides a series of policy recommendations. The policy brief can be accessed at <http://bit.ly/1o5G2EG>



After Paris: Fiscal, Macroeconomic, and Financial Implications of Climate Change – IMF – January 2016

This staff discussion note from the International Monetary Fund (IMF), against the backdrop of the new UN climate deal agreed in December in Paris, France, takes stock of the wide-ranging implications for fiscal, financial, and macroeconomic policies in coming to grips with climate change. The note covers the potential impacts of the Paris deal for the financial markets, carbon pricing, climate finance, and adaptation. The note can be accessed at <http://bit.ly/1UOkNky>



Global Risks Report 2016 – WEF – January 2016

The World Economic Forum's flagship risk report features perspectives from nearly 750 experts on the perceived impact and likelihood of 29 prevalent global risks over a 10 year timeframe. The report also examines interconnections among these risks. This year's report placed the failure of climate change mitigation and adaptation at the top of the list of risks to global well-being, with weapons of mass destruction ranking second, followed by water crises. Severe energy price shocks and migration are also major concerns. The report can be accessed at <http://bit.ly/1RvWKZK>



Traceability Systems in the CITES Context – TRAFFIC – December 2015

This report from wildlife monitoring group TRAFFIC presents a series of case studies on how trade in species listed on the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) can be tracked along the supply chain. The report was conducted using feedback from CITES authorities, industry representatives, and experts. It considers experiences, lessons learned, and best practices from the case studies and analyses the potential for establishing an effective traceability system for shark commodities trade. The study can be accessed at <http://bit.ly/1Q8Z15R>

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