# Cooling the planet without chilling trade

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There is a real danger that a collision between climate policy and trade agreements could derail two critical goals: controlling climate change and expanding trade.

But this danger is avoidable.

We are an unusual pair of advocates for this message. For a long time, we and our organizations have been on opposite ends of the debate over trade agreements, disagreeing about their effects on economies, livelihoods and domestic regulations.

But we agree on a surprising number of aspects of the climate-change debate and on the related need to overhaul global trade negotiations, which are stalled by disagreements and the worldwide financial crisis.

We agree that it is politically unrealistic -- and unwise -- to try to enact a cap-and-trade system that puts manufacturers in the United States at a competitive disadvantage with those operating overseas that do not produce under comparable requirements. It makes no sense to impose a cost on those producing steel, autos and other goods, only to have them shift jobs and pollution to China or India -- which are wary of binding international obligations on emission reductions.

While the academic debates about the economics of this issue continue, the politics are clear. The two means of "leveling the carbon playing field" in bills before Congress -- imposing additional "border charges" on carbon-intensive imports and subsidizing domestic producers -- are being criticized by many U.S. trading partners as potential World Trade Organization violations. These criticisms could lead to WTO challenges that might undermine climate and trade agreements, or to retaliation that could escalate to trade wars, choking the global economy. Yet without some kind of border adjustment mechanisms, even if imposed after a fixed period, U.S. climate legislation is unlikely to pass.

Meanwhile, many poor countries have signaled that they want more financial support for the "green technology" transfers that would enable them to participate in a global climate accord, as well as greater access to these technologies. Implementing a treaty on global warming could require new trade rules in intellectual property, services, government procurement and product standards.

Luckily, these problems present an opportunity.

President Obama campaigned on a promise to redefine the U.S. trade agenda, but he has yet to do so. One path would be to launch an "Obama Round" of talks that would include, as a centerpiece, addressing these potential commercial and climate trade-offs and updating the negotiating agenda. Earlier this year, the Peterson Institute recommended a new code of "best practices" on greenhouse gas emission controls, including establishment of "policy space" for countries to limit emissions without sacrificing the competitive position of their industries. The institute also recommended that countries adopt a time-limited "peace clause" in which pursuit of new trade barriers would be suspended while the negotiations proceeded, and that a global climate accord be linked to a new global trade accord.

Public Citizen issued a report last year that described the WTO trade pact provisions that needed to be renegotiated to help then-candidate Obama deliver on his campaign proposals regarding climate.

Both warned that allowing the WTO adjudication process to handle trade disputes over climate matters is a recipe for discord and impasse.

The climate legislation approved by the House incorporated provisions to apply border adjustments (starting in 2020), exemptions and rebates, or "free allocation of allowances." The leading draft bill in the Senate seems headed in that direction.

Might these measures spell trouble? As WTO Director-General Pascal Lamy has noted, the WTO allows members certain flexibilities to adopt border adjustment policies to equalize costs related to carbon controls, as long as they do not distort or disrupt trade. The parameters of that policy space are extremely murky. Yet these problems can be addressed if the United States leads along the lines suggested above.

We do not mean that the president should stop there when it comes to trade. Here, we do not see everything the same way.

One of us, Fred Bergsten, believes that the Doha round of talks has yielded modest results and needs to achieve much greater openness to trade -- particularly by developing countries such as China, Brazil and India -- in farm products, industrial goods and especially services. There must also be a way to address the threat of "new mercantilism," or a round of competitive currency devaluations that could undermine the system, preferably through the International Monetary Fund but with links to the trading system.

The other of us, Lori Wallach, warns that the problem with the Doha round is not meager results but a wrongheaded agenda designed to expand the WTO's "corporate globalization" regime. For instance, policymakers should fix existing WTO financial deregulation requirements rather than proceed with the Doha-round agenda of even more deregulation.

There is little doubt that current WTO negotiations do not fully address the real problems confronting the world and the trading system itself. The threat of global climate change and the catastrophic consequences for the natural environment -- and for the world's poorest citizens -- ought to focus the minds of our leaders. The only way to solve our problems is to treat them together, before the challenges pile on each other and produce paralysis instead of action.

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