

EMISSION REDUCTION INCENTIVES:

Using Tariff Cuts to Assist Climate Change Mitigation by Developing Countries

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The United States should move to reduce or eliminate all tariffs on imports from developing countries to help offset the extraordinary costs these countries face in confronting climate change. It should also encourage other wealthy countries to take similar steps.

Tariff relief, or Emission Reduction Incentives (ERI), would be granted by the U.S. to developing countries that meet internationally agreed upon milestones for cutting greenhouse gas emissions – as well as to countries that voluntarily go beyond these milestones. Tariff relief would supplement direct financial assistance and spur economic growth in developing countries as they adopt emissions-reduction measures that might otherwise damage their economies.

While reduced tariffs on many imports would have substantial benefits for U.S. consumers, an ERI program should be accompanied by steps to offset lost tariff revenue and assist workers who are adversely affected by greater foreign competition.

RATIONALE

At the December 2009 summit in Copenhagen, developed nations pledged nearly \$30 billion in climate aid to poorer countries over the next three years, and committed to mobilizing \$100 billion by 2020. These figures are widely seen as inadequate. The World Bank, for example, has estimated that keeping global warming down to 2°C or less will cost \$140 billion to \$675 billion a year for developing countries. The estimated costs of adapting to the effects of climate change likewise run into the tens of billions of dollars annually.

Various ideas are now being explored for better financing the climate change fight, beyond more traditional forms of bilateral and multilateral assistance. These ideas include long-term loans, known as Special Drawing Rights (SDRs), as well as a tax on international financial transactions. Tariff relief offers another important way to assist developing nations. The U.S. is likely to collect about \$90 billion in import duties on products from developing countries, excluding China, by 2020. The combined total collected by the European Union, Japan, and other wealthy countries may exceed that amount.

Beyond mobilizing greater resources to fight climate change, developed countries must incentivize developing countries to make voluntary emission cuts that go well beyond binding targets. Voluntary action is crucial, since developing countries will account for a majority of greenhouse gas emissions by the 2020s, yet it is unlikely that any international agreement will stipulate deep emission reductions by these countries for reasons of historic equity.

POLICY FRAMEWORK

The United States has long used trade preferences to advance economic and foreign policy priorities. Today, with climate change posing a grave threat to humanity, global stability, and U.S. interests, it makes sense to modify trade preferences to reflect the urgent imperative of reducing global greenhouse gas emissions.

Under the ERI program, developed countries that meet or exceed specific emissions targets would have their tariffs reduced or eliminated. These incentives would be implemented through the Generalized System of Preferences (GSP), the leading trade preference program for developing countries. However, the incentives could also be incorporated into any new comprehensive preference program. Tariff relief would not be extended to fossil-fuel based products, like oil, or carbon-intensive products.

Application for ERI preferences would be open at all times and available to all developing nations that are already eligible for GSP benefits of Preferences and have ratified the successor agreement to the Kyoto Protocol under the United Nations Framework Convention on Climate Change (UNFCCC).

Emission Reduction Incentive benefits would be granted on a step system. All countries that meet the emission targets they have agreed to under a successor to the Kyoto Protocol would automatically be granted some ERI benefits. However, more generous ERI benefits would reward voluntary emission cuts that go significantly beyond internationally agreed upon targets. Legislation enacting an ERI preference should create a technical panel to recommend the appropriate level of emission cuts that developing countries should be expected to make to receive benefits.

OFFSETTING LOST U.S. TARIFF REVENUE AND JOBS

Tariff revenue from developing countries, excluding China, constituted just 0.2 percent of all revenues received by the Federal government in 2008. Reductions in this revenue stream could be offset in various ways, including by pollution permit auctions, as part of cap-and-trade legislation, or by carbon taxes. While reduced tariffs would benefit U.S. consumers, especially low-income shoppers, targeted efforts would be needed to assist U.S. workers adversely affected by increased foreign competition.

TOWARDS A GLOBAL ERI REGIME

The United States, which bears more responsibility for climate change than any other nation, should move forward unilaterally to offer ERI benefits. But it should also work energetically to secure the cooperation of other developed nations to offer similar benefits. Ideally, the U.S., EU, Japan and other developed nations would offer tariff relief in a coordinated fashion.