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Summary
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EMISSION REDUCTION INCENTIVES

A Proposal to Use Tariff Cuts to Assist Climate Change Mitigation by Developing Countries

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Introduction

Wealthy nations, led by the United States, should move to reduce or eliminate all tariffs on imports from developing countries as one way to help offset the extraordinary costs these countries face in confronting climate change. If U.S. tariff policy continues on the current trajectory, the U.S. is likely to collect about $90 billion in import duties on products from developing countries, excluding China, by 2020.[1] The combined total collected by the European Union, Japan, and other wealthy countries may exceed that amount. These projected duties constitute a vast pool of funds that can and should be tapped to help mobilize a decisive global response to climate change.

Finding the resources to help developing countries mitigate their greenhouse gas emissions, as well as adapt to climate change, has emerged as one of the greatest areas of contention in global climate negotiations. At the December 2009 summit in Copenhagen, developed nations pledged nearly $30 billion in aid to poorer countries over the next three years for mitigation and adaptation, and committed to mobilizing $100 billion in assistance by 2020. These figures are widely seen as inadequate in comparison to the actual costs that developing countries face to limit emissions and adapt to climate change. 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 adaptation likewise run into the tens of billions of dollars annually.[2]

Developing countries are understandably reluctant to agree to limits on their greenhouse gas emissions without greater assistance from the industrialized nations that largely caused climate change in the first place. In turn, the leaders of developed countries must reckon with political reality: Regardless of what is fair in historic terms, or what funds are actually needed, there are stark limits to how much funding these leaders will be able to coax from their legislatures now or in the future. Nearly all wealthy countries are coping with historic budget imbalances and debt burdens that will exert growing pressures over time on public spending–especially amid the rapid aging of their populations. Directly appropriating vast assistance to poorer nations will be a tough sell under these conditions and even the modest promises made at Copenhagen may be difficult to keep.

Meanwhile, many experts agree that developing countries must make deeper cuts in emissions than what is now being contemplated. These countries produce a growing share of global emissions and will surpass developed nations in overall emissions in the 2020s. While there are obvious historic reasons why developing countries should be subject to less stringent

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emissions standards, avoiding a planetary catastrophe requires that all countries commit to more ambitious goals than those set out at Copenhagen. Specifically, there is evidence that additional warming must be limited to 1.5 degrees Celsius to avoid devastating effects, rather than the 2 degree milestone embraced at Copenhagen by the major emitters. Furthermore, a recent report released by the United Nations Environment Programme (UNEP), which examined emissions pledges from both developed and developing nations after Copenhagen concludes that countries will need to make much more ambitious GHG emission reduction pledges in order to keep global warming at 2 degrees Celsius or less.[3]

In short, developed countries must find a politically sustainable way to channel far greater assistance to developing countries than now planned while also getting these nations to undertake more dramatic action on climate change.

Various ideas are now being explored for financing the climate change fight. One widely discussed proposal, introduced by George Soros and now being explored by the International Monetary Fund, would use long-term multilateral loans, known as Special Drawing Rights (SDRs), to channel up to $100 billion to developing countries over the next few decades. Another idea is to use a tax on international financial transactions, particularly currency speculation, to raise new revenue. France's foreign minister Bernard Kouchner, among others, has proposed that the so-called Tobin Tax–named after economist James Tobin–should be used to raise tens of billions of dollars annually to finance both mitigation and adaptation by developing countries. Mobilizing the necessary resources to fight climate change may require some combination of both these ideas, in addition to more traditional forms of bilateral and multilateral assistance.

Tariff relief should not be seen as a substitute for direct financial assistance to help developing countries mitigate climate change. Rather, it can be an important supplementary step to offset the economic costs of reducing greenhouse gas emissions. The benefits of tariff relief would come in the form of better opportunities for growth and job creation for developing countries and also through making them more competitive as they adopt emissions-reduction measures that might otherwise damage growth during the transition process.

The United States already grants trade preferences to a number of countries for a variety of reasons–strategic, economic and humanitarian. The European Union (EU) grants trade preferences for developing countries that comply with core labor standards, and also for meeting certain environmental standards. Both the US and the EU should take a bold approach to creating a new trade preference category designed to limit carbon emissions, and the Obama Administration and Congress should be a leader in this effort.

This policy brief explains how to use tariff relief to reward developing countries that meet internationally agreed upon milestones for emission reductions as well as to incentivize such countries to go beyond these milestones. It also explains how the U.S. can manage the economic effects from more open trade to protect American workers and living standards.

In effect, we propose a grand planetary bargain whereby developed nations dramatically increase access to their markets in exchange for a bigger push by developing countries to fight climate change. If fully implemented, this plan would not only lead to deeper cuts in greenhouse gas emissions by developing countries, but also spur badly needed economic growth in these countries and foster global prosperity overall.

The plan described in this paper is specific to the United States. But the same approach could and should be adopted by the EU, Canada, Japan, and other wealthy nations.

The Need for Bigger Steps

A growing number of world leaders, including President Obama, have agreed on the need to cut greenhouse gas emission by 80 percent from 1990 levels by 2050 to limit temperature rises to 2 degrees Celsius. [4] However, as bold as this goal sounds, growing scientific evidence suggests that, in fact, faster and more dramatic action may be needed.

Today, the effects of climate change are already being felt with carbon dioxide levels in the atmosphere at 380 parts per million (ppm). Without any action, it is likely that ppms will roughly double by 2050.[5] Many climate experts believe that the world must make significant enough emission reductions to get back to 350 ppm and limit temperature rises to 1.5 degrees Celsius. As the chairman of the Intergovernmental Panel on Climate Change (IPCC), Dr. Rajendra K Pachauri, has said: "What is happening, and what is likely to happen, convinces me that the world must be really ambitious and very determined at moving toward a 350 target."[6] Yet even if countries did succeed at cutting emissions by 80 percent by 2050, those cuts would not achieve this target. Instead, it has been estimated that the world must cut greenhouse gas emissions by *97 percent* by 2050 in order to achieve the 350 ppm goal and avoid the devastating effects of climate change.[7]

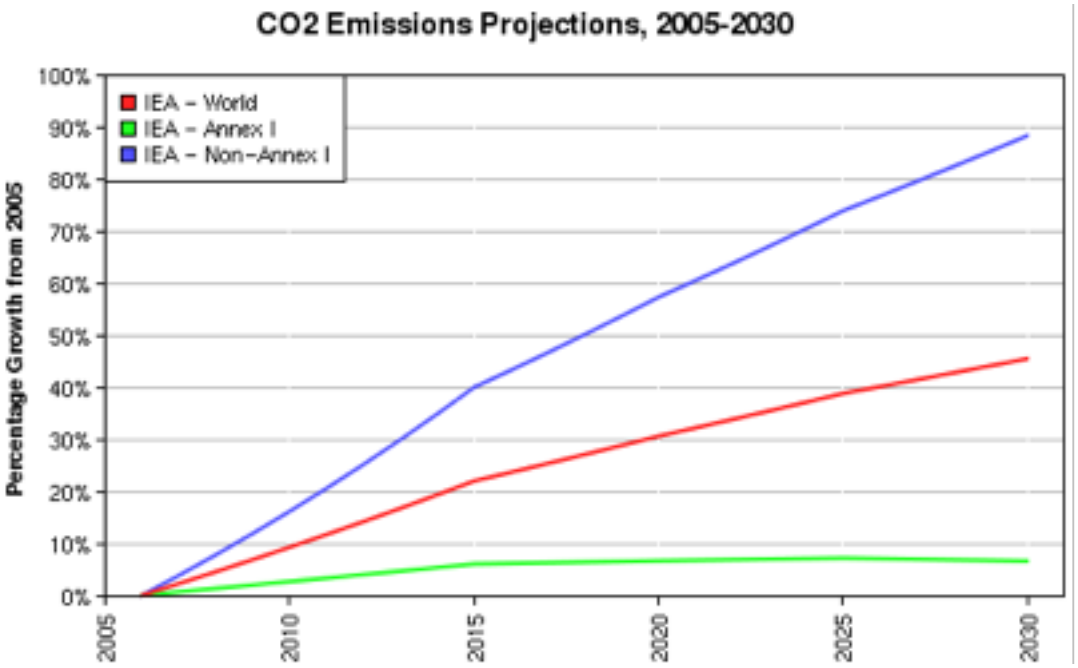
This cannot be done easily. And it certainly cannot be done given current expectations for different countries. Under the current Kyoto Protocol, developed countries bear the brunt of the burden to reduce global emissions. Negotiators at Copenhagen upheld the principle of "common but differentiated responsibilities." This means that developing countries will be subject to less stringent emissions standards than developed countries in any final agreement.

It is fair that developed nations should be primarily responsible for stemming climate change since these nations grew rich thanks to over a century of growth and prosperity fueled by carbon-based energy. However, with the balance of carbon emissions fast shifting to developing countries, it is now clear that the burden of emission reduction must likewise be spread more fully to these countries. According to the World Bank, "between 2020 and 2030, developing country emissions of carbon from energy use will exceed those of developed countries."[8]

These emissions will offset even the most dramatic cuts that might realistically be made by industrialized nations and overall global emissions will continue to grow. Therefore there is no choice but to ask developing countries to make deeper emissions cuts than most now contemplate. A report released by UNEP, which examined emissions pledges from both developed and developing nations after Copenhagen concludes that countries will need to make much more ambitious GHG emission reduction pledges in order to keep global warming at 2 degrees Celsius or less.[9]

Such requests will fall on deaf ears unless they are accompanied by much more ambitious and generous offers of financial assistance. And, as a practical matter, some of the arrangements for this assistance may have to be made outside the formal framework of current negotiations.

Figure 1



Source: Climate Analysis Indicators Tool (CAIT) version 7.0. (Washington, DC: World Resources Institute, 2010). Available at http://cait.wri.org.

Tariff Relief: A Supplement to Direct Financing

Some developing nations have embraced the need for more ambitious action and have pledged large emissions reductions by 2020–if they receive adequate assistance. For instance, Indonesia has pledged to reduce emissions by 26 to 41 percent by 2020, depending upon levels of international assistance. Mexico has pledged a 50 percent cut if it receives enough international assistance.

Despite these pledges, the likely outcome of climate negotiations is that the reduction goals set for developing countries, along with pledges of financial assistance, will not go far enough.

This challenge calls for creative solutions and, indeed, such solutions were explicitly encouraged in the Copenhagen Accord of December 2009: "We decide to pursue various approaches, including opportunities to use markets, to enhance the cost-effectiveness of, and to promote mitigation actions. Developing countries, especially those with low emitting economies should be provided incentives to continue to develop on a low emission pathway."

Tariff relief should be used to incentivize emission reductions and offset their cost in two ways. First, the U.S. should promise tariff relief to all developing countries that meet eligibility criteria and meet their pledges as laid out in a global climate pact. Such tariff relief should be aimed at expanding the overall assistance provided by the United States to help developing countries mitigate and adapt to climate change. Tariff relief should be a supplement to direct financial assistance, not a substitute.

Second, the U.S. should pledge to further reduce or eliminate all tariffs for countries that go significantly beyond their international commitments. We propose a two-tier system to guide tariff relief for voluntary reductions, with levels of tariff relief linked to level of verifiable emission reductions by developing countries.

Contrary to popular belief, the majority of developing countries, and even Least Developed Countries (LDCs), incur a significant amount in tariffs on products that they export to the United States. While two-thirds of total imported goods do enter the U.S. duty free, the U.S. still imposes tariffs on a wide variety of products and sectors. Between 2000 and 2008, the U.S. collected $144.5 billion in tariffs on products from countries defined as developing by the International Monetary Fund with roughly 47 percent of that total coming from Chinese-made goods. Assuming a global economic recovery and no changes in tariff policies, the United States is likely to collect over $200 billion in tariffs on products from developing countries over the next decade, with at least half these funds coming from products that aren't made in China.

Exact figures are not available for the duties on goods from developing countries that are collected by the EU, Japan, and Canada. But the combined total for these countries is likely comparable to the duties collected by the United States, which means that together the world's developed nations will collect over $400 billion in tariffs on products from the world's poorest nations over the next decade, or roughly half that amount if China is excluded from the equation.

The tariffs the U.S. levies on products from developing countries often have perverse results in both the United States and other countries. These tariffs are primarily on cheap good that are mainly purchased by low-income U.S. consumers, resulting in higher prices and increased hardships for America's poorest families. The cost to the U.S. public from tariffs, taking into account increases from retail markups and sales taxes, for clothes and shoes has been estimated at $40 billion annually.[10]

In many cases, tariffs are not successful in preserving jobs. Jobs in high-tariff industries (i.e., shoes, textiles) have steadily declined, despite the constancy of tariff rates in those sectors. For example, in 1998 these industries employed about 930,000 workers. Today, they only employ about 400,000 workers despite the fact that tariff rates have remained high.[11] According to one report, employment in high-tariff industries accounts for only about 3 percent of U.S. manufacturing jobs.[12] Furthermore, many of the high tariffs are on products that are no longer even made in the United States. A notable example is the 48 percent tariff on sneakers under three dollars–an item which has not been produced in the United States since the 1970s.[13]

At the same time, tariffs by the U.S. and other rich nations serve to retard economic growth in developing nations by increasing the costs of accessing the largest and most important consumer markets in the world.

According to a study by Kim Elliot of the Center for Global Development, "Current U.S. trade policy discourages developing countries from exporting goods from precisely the sectors in which they have a natural advantage."[14] Labor-intensive goods which are typically produced by developing countries, face tariff rates that are three times that of the average tariff.[15] Elliot rightly calls rich-country barriers to exports from poor countries "ethically questionable."[16] On a related point, a study by the International Food Policy Research Center found that protectionism and subsidies by industrialized nations cost developing countries $24 billion annually in lost agriculture and agro-industrial income.[17]

Spurring economic growth by developing countries and reducing global greenhouse gas emissions are both vitally important goals for the 21st century. The United States should take the lead in instituting a new trade preference program that links these two goals. Through the ERI program, developing countries would receive benefits on many products that are not currently included in the GSP program. These would include different varieties of clothes, leather goods, luggage, some consumer electronics, plates and tableware, shoes, home textiles, and an array of farm products.

Enacting tariff relief as part of the fight against climate change fight will be no easy feat politically. However, once an ERI preference system is put into place, it would be likely be a more reliable source of financial support for developing countries than funds that are directly appropriated by Congress on an annual basis. ERI benefits would flow to countries that are fulfilling their obligations and not depend on wins in the yearly budget battles that are certain to intensify in coming years.

Tariff Reductions for Emissions Cuts: A Policy Framework

Under our proposal, developing 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 preference program that is created as a result of ongoing efforts to consolidate and streamline the various trade preference programs that now exist for developing countries. Tariff relief would not be extended to fossil-fuel based products, like oil, or carbon-intensive products.

The United States has long used trade preferences to advance economic and foreign policy priorities. The GSP in particular has evolved over time, with its criteria expanding to include enforcement of intellectual property rights and respect for international labor standards. 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 our plan, the GSP would be arranged into three different tracks: the standard GSP arrangement, the LDC arrangement, and a new Emission Reduction Incentive (ERI) arrangement.

Eligibility

Application for ERI preferences will be open at all times and will be available to all developing nations that meet the following criteria: (i) the applicant must be a developing country; (ii) the applicant must meet the eligibility criteria for the U.S. Generalized System of Preferences; and (iii) the applicant must sign and ratify the successor agreement to the Kyoto Protocol under the United Nations Framework Convention on Climate Change (UNFCCC). These criteria are explained further below.

- Must be a Developing Country.[18] Under the current World Trade Organization (WTO) rules, countries are allowed to self-designate themselves as developing countries, subject to challenge by member nations. Thus, a nation which designates itself as a developing country can apply for the program. It is up to the discretion of the Office of the United States Trade Representative (USTR) to either accept or reject this designation. The WTO also explicitly designates a number of Least Developed Countries (LDC).[19] These countries automatically

fulfill the developing country criteria for ERI preferences.

» Must meet the U.S. GSP Eligibility Criteria.[20] Countries receiving ERI preferences will have to meet the mandatory and discretionary criteria now required to be eligible for benefits under the GSP.[21] According to the Office of the U.S. Trade Representative (USTR), a developing country is not eligible for GSP benefits if it has a communist government, is a member of the European Union (EU), has supported individuals or groups that have committed acts of terrorism, has not taken steps to adhere to internationally recognized worker rights, or has not taken necessary steps to eliminate the worst forms of child labor. The President may also consider the other discretionary factors in deciding whether a country is eligible for GSP benefits, such as the extent to which the country has assured the United States that it will provide "equitable and reasonable" access to its markets; the extent "to which the country is providing adequate and effective protection of intellectual property rights;" and the extent to which "the country has taken steps to reduce trade-distorting investment practices and policies and services trade barriers."[22] Under these criteria, China would be excluded from this program. These additional criteria should assuage concerns that tariffs will be reduced or eliminated for countries that do not practice fair and open trade with the United States.

» Must sign and Ratify a Kyoto Successor Agreement. In order to qualify for ERI preferences, the applicant must sign and ratify a successor accord to the Kyoto Protocol. Eligibility for ERI preferences will be set using emission targets agreed upon under the new agreement and the progress of ERI preference beneficiaries will be measured using emission monitoring mechanisms provided by the agreement. If no binding agreement is reached than this condition will be void, as explained later in this report.

How ERI Benefits Will be Granted

Emission Reduction Incentive benefits will be granted on a step system. All countries that meet the emission targets to which they have agreed under a successor to the Kyoto Protocol will automatically be granted some ERI benefits. Beyond this, countries should be granted ERI benefits to reward voluntary emission cuts that go significantly beyond internationally agreed upon targets. We propose a two-tier system to allocate benefits. The first tier of benefits will entail major tariff cuts on a range of products. The second tier will entail the elimination of all tariffs, except those on carbon intensive products or any products deemed harmful to the environment, as designated by the USTR.

In 2009, there were roughly 10,000 products not covered by the GSP arrangement.[23] These include certain textile and apparel products, agricultural products, watches, electronic articles, steel products, footwear, glass products, and numerous other items.

This paper does not spell out the level of emission cuts that developing countries would have to make to be eligible for first and second tier benefits. Nor does it lay out exactly how these benefits would be allocated through the U.S. Harmonized Tariff Schedule. Rather, we propose that legislation enacting an ERI preference system stipulate the appointment of a technical panel to recommend the appropriate level of emission cuts that developing countries should be expected to make to receive benefits. This recommendation should be based on analyses of what costs developing countries face for varying levels of mitigation and adaptation, as

well as scientific findings about the extent of emission cuts that developing countries need to make in coming decades. In addition, this panel should recommend the best way to structure these benefits through the U.S. schedule of tariffs and provide guidance to Congress and the Administration about the likely domestic impact of such changes and policies that could effectively offset that impact.

Verification and Renewal

Under the Kyoto monitoring system, countries are required to submit annual emissions inventories as well as national reports at regular intervals. The Copenhagen Accord of 2009 puts forth the criteria that developing countries will monitor emissions and compile data domestically, "with provisions of international consultations and analysis."[24] Thus, developing countries will still be subject to less stringent monitoring than developed nations, but international consultation and analysis should help ease concerns about transparency. This system will be used to monitor emissions levels in relation to ERI benefits.

Emissions levels will be monitored on an annual basis to make sure that countries receiving ERI benefits are meeting their reduction targets. Upon assessment of annual reviews, any country which no longer meets the criteria for their designation level will be dropped to the appropriate lower level, effective immediately. Countries cannot be retroactively punished or taxed for tariffs not paid while classified at an inappropriately high level. To increase ERI benefits, countries will request a formal review.

WTO Compliance

The 1979 Enabling Clause to GATT allows nations to grant preferential trade status to developing countries. That clause stipulates that certain conditions for such preferences must be met, and this proposal meets those conditions. For example, the Enabling Clause holds that "differential and favorable Treatment must be designed to respond positively to the development, financial and trade needs of developing countries."[25] Clearly, helping countries both meet the challenge of climate change and expand their potential to export goods to wealthy nations is in line with this condition. The EU, in providing a justification for its GSP+ program, which rewards countries for their environmental records among other things, argued successfully that measures to combat climate change promoted sustainable development.[26]

The Clause also stipulates that "identical treatment must be made available to all similarly-situated beneficiaries."27 Our proposal satisfies this requirement since the program is open to all similarly-situated countries. Any developing country can apply to the program, although only those that satisfy the given conditions will receive preferential treatment. This explanation was also used to justify the EU's GSP+ program and has not come under scrutiny by the WTO.

Other criteria of the Enabling Clause are easily met by this proposal–the proposal must be generalized, non-reciprocal and "must not raise barriers or create undue difficulties for the trade of other members."[28]

In order to comply with WTO regulations, this proposal can only apply to developing countries. It is plausible that an environmental exception argument could be used here so that the program could be extended to cover developed nations but that is outside the scope of this proposal.

Case Study: Vietnam

Vietnam offers an example of how ERI benefits could be used to support developing nations in efforts to reduce greenhouse gas emissions. Vietnam has a population of 86,967,524 and had a GDP in 2008 of $90.7 billion.[29] In 2008, Vietnamese exports totaled an estimated $63.73 billion of which 20.8 percent went to the United States, incurring $1 billion in U.S. import duties–making Vietnam exporters the 4th highest ranked country in terms of tariffs incurred by the U.S.[30]

In 2005, Vietnam emitted 176.9 million tons of CO2 (MtCO2), making it the 35th highest CO2 emitter in the world.[31] According to Vietnam's Initial National Communication published under the United Nations Framework Convention on Climate Change, its estimated GHG emissions (based on a business as usual scenario) are likely to rise by 233 $MtCO_2$ in 2020–more than a 25 percent rise in 15 years.[32] In the National Communication document, Vietnam laid out a plan to reduce its total emissions in the energy, forestry and land use and agricultural sectors. According to this plan, the total GHG mitigation potential is 3,465.7 MtCO2 from 1994 to 2020. In order to achieve this level of mitigation, Vietnam would need to undergo a number of emission-reduction projects which have been submitted to the UNFCCC Secretariat. (See Table 1.)

Table 1. List of Mitigation Projects in Vietnam

Sector	Subsecter	Project Title
Agriculture	· Improve rice production practices	· Irrigation management of wetland rice fields to reduce methane emission
Energy Supply	· Switching to renewable sources of energy · End use/description: Biomass/biogas · End use/description: Geothermal and ocean energy	· Construct wind power stations for Coto Island in Quang Ninh province Development of renewable energy · Encouraging utilization of renewable energy in rural areas · Using biogas as fuel to mitigate greenhouse gas emissions in rural areas Exploitation of geothermal energy
Forest	· Forest Practices/goals · Production forestry/ agroforestry	· Planting protective forest in the watershed of Ngan Sau, Ngan Pho Rivers · Forest Plantation on sandy soil at the coast of southern central Vietnam
Industrial	· Cogeneration and Thermal Cascading · Energy Efficiency Gains	· Research on cogeneration technology from biomass fuel · Energy conservation and saving in small and medium-sized enterprises Energy saving in industry
Residential, Commercial & Institutional Buildings	· Cooking	· Improving cooking stoves of the rural mountain community

The cost of these projects will be substantial, and will compete against other development needs in what is still a poor society. Like all countries, Vietnam will face no penalties if it fails to meet internationally agreed upon targets for emission reductions. Moreover, Vietnam's plans for mitigation may not go far enough in achieving substantial emissions reductions.

The ERI preference program would incentivize Vietnam to meet its agreed upon targets and to go well beyond these targets. If Vietnam were to achieve emission cuts that qualified it for second tier ERI benefits, it would face completely unfettered access to the largest consumer market in the world. The effect would be to spur economic growth that could compensate for the initial investments that Vietnam made to achieve deep emission cuts.

Questions and Concerns

What if binding emissions targets are not set for developing countries in 2010?

The U.S. can still pursue an ERI preference program if binding emissions targets are not agreed upon in international negotiators. While it is certainly preferable to use a multilateral agreement as the basis for emission targets, these can be set through case by case negotiations between the U.S. and applicant countries. In this instance, the United States would consult with the UNFCCC to determine an acceptable level of emissions, taking into account factors such as current emissions levels, per capita emissions, level of development, GDP, etc.

Will developing countries intentionally set lower targets so that they can more easily meet them and get ERI benefits?

That is unlikely. Many developing countries have signaled that they will not set ambitious emission reduction goals without promises of sufficient financial assistance. To the extent that the creation of an ERI preference program would help the United States to offer a more robust package of financial assistance, this will increase the chances that developing countries will go further in establishing their reduction targets.

If no binding targets are agreed upon in international negotiations and instead are set on a case by case basis, the U.S. will have the power to reject applicants who refuse to agree to sufficiently stringent emissions targets.

How will the United States offset the loss in jobs and tariff revenue?

Federal revenues generated from tariffs constitute a small fraction of overall government revenue. In 2008, the U.S. gained $18 billion in tariff revenue from developing countries–or 0.37 percent of all revenues received by the Federal government. Excluding countries such as China which do not meet the GSP eligibility requirements brings this number to about 0.2 percent of revenues. Moreover, as mentioned earlier, tariffs are primarily on cheap products that are mainly purchased by low income families, resulting in higher prices and increased hardships for America's poorest families. These consumers, as well as some domestic industries, would benefit substantially under our proposal.[33]

There are several options for making up the lost revenue from tariffs. One option is to use revenue from pollution permits. Under the proposed Waxman-Markey bill, the American Clean Energy and Security Act, tens of billions of dollars would be raised from the revenue from pollution permit auctions. Currently, the legislation does not address how the money would be spent. Under President Obama's plan, two-thirds of revenue would be returned to the public in tax breaks. A portion of the remaining revenue could be used to offset the loss in tariff

revenue as well as to finance more direct forms of financial assistance to developing countries for mitigation and adaptation.

Only a small minority of workers and industries are likely to be adversely affected by the reduction of tariffs for developing countries. We suggest that part of the revenue from auctionable allowances go towards helping workers who may lose their jobs. The current Trade Adjustment Assistance (TAA) program does not do enough to help workers whose jobs are displaced by trade.[34] An overhaul of this program is necessary to carry out a more robust approach to helping these workers and a reduction of tariffs, along with a dedicated new funding stream, could help catalyze that overhaul.

In addition, certain domestic industries that might be hurt by this proposal could be given a certain amount of free emissions allowances rather than having to pay for them in an auction system. Such free allowances could help affected industries manage the negative effects of increased foreign competition.

Will the increase in growth and trade as a result of the ERI program have an adverse effect on the environment?

An often cited concern about trade liberalization is that it can spur an increase in the emission of greenhouse gases. The WTO and UNEP recently released a report that examines how opening trade can affect the environment. It suggests that the expansion of economic activity arising from increasing trade leads to greater energy use and most likely results in higher levels of greenhouse gas emissions.[35]

However, an ERI preference program would work to break this cycle by linking trade liberalization to reduced CO_2 emissions. In order to maintain ERI benefits, countries would have to meet or exceed their emissions targets even as their economies grew. Thus, in this case, trade liberalization would act as a check on emissions rather than an instigator.

Would those countries that do not qualify for ERI benefits suffer from adverse effects?

Some might worry that those countries that receive preferential trade access as part of the ERI program would have an unfair advantage over other countries who are not part of this program. Such asymmetry has the potential to negatively affect development for nations who do not qualify for ERI benefits

To some degree, this is exactly the point of an ERI program: To help fan a race among developing countries to go green, expand their market access in the developed world, and become more economically competitive. However, it should be noted that countries that do not qualify for ERI benefits may still qualify for the standard GSP or LDC GSP benefits, as well as benefits from more regional preference programs.

The ERI program would encourage developing countries to take steps that are ultimately in their best interests. Quite apart from the economic rewards of tariff relief, countries that go the extra mile to reduce emissions will be cutting energy costs, reducing dependence on foreign oil, preserving rainforests for future generations, and achieving other positive results. And, of course, they will be doing more to address a global crisis that promises to most adversely affect developing countries. A report by the World Bank argues that a 2°C rise in global temperature would cost the world 1 percent of GDP. However, it would cost developing countries like India 5 percent of GDP, and Africa 4 percent of GDP.[36]

Conclusion: Toward a Global ERI Regime

The basic bargain that we propose–tariff relief by rich countries in exchange for major emission reductions by developing countries–will have maximum impact if struck at the global level. Ideally, the United States would secure the agreement of the EU, Japan, and other developed nations to offer ERI benefits in a coordinated fashion. While we propose that the United States be ready to implement ERI benefits unilaterally, such a move should be seen as a first step in the creation of a global ERI regime.

Developing nations pay a large sum in tariffs to countries other than the United States, especially to the EU. In 2007, GSP countries alone exported an estimated €57 billion worth of goods to the EU (roughly $79.8 billion USD based on exchange rate of 1.4).[37] While specific data on total tariffs paid to the EU by different countries is not available, the average tariff rate on goods imported to the EU is about 4 percent on industrial goods, 6.5 percent on textiles, and 11.5 percent on clothing.[38]

The Obama Administration has stated that it is ready to "take the lead" on climate change.[39] Playing this leadership role entails a number of steps. Most importantly, Congress must pass climate change legislation that commits the United States to major reductions in its greenhouse gas emissions. The United States must also commit to higher levels of direct financial assistance than what the Administration has pledged so far. In addition, the United States should take the lead in creating new global arrangements to finance climate change mitigation, such as proposals for SDRs and a Tobin Tax.

Establishing a system of ERI benefits would be another important step toward the United States playing a leadership role in confronting climate change. This system should not be a substitute for direct financial assistance to developing countries, but would be a supplement to such a system. The United States, which bears the most responsibility for climate change of any nation, should move forward unilaterally to offer ERI benefits. But it should also work energetically to secure the cooperation of other developed countries to offer similar benefits.

Appendix A

GSP Eligible Benificiaries

Afghanistan
Albania
Algeria
Angola
Argentina
Azerbaijan
Anguilla
British Indian Ocean Territory
Christmas Island
Armenia
Bangladesh
Belize
Benin
Bhutan
Bolivia
Bosnia & Herzegovina
Botswana
Brazil
British Virgin Islands
Wallis and Futuna
West Bank & Gaza Strip
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Republic
Chad
Colombia
Comoros
Cocos (Keeling) Islands
Cook Islands
Falkland Islands
Congo (DRC)
Congo (RC)
Cote D'Ivoire
Croatia
Djibouti
Dominica
Dominican Republic
East Timor
Ecuador
Egypt
Equatorial Guinea
Eritrea
Ethiopia
Fiji
Gabon
Gambia
Georgia
Ghana
Gibraltar
Heard Island & McDonald Islands
Montserrat
Grenada
Guinea
Guinea-Bissau
Guyana
Haiti
India
Indonesia
Iraq
Jamaica
Jordan
Kazakhstan
Kenya
Kiribati
Kosovo
Kyrgyzstan
Lebanon
Lesotho
Liberia
Macedonia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Moldova
Mongolia
Mozambique
Namibia
Nepal
Niger
Nigeria
Pakistan
Panama
Niue
Norfolk Island
Pitcairn Islands
Papua New Guinea
Paraguay
Philippines
Russia
Rwanda
St. Kitts and Nevis
Saint Helena
Tokelau
Turks & Caicos Islands
Saint Lucia
Saint Vincent & the Grenadines
Samoa
Sao Tome and Principe
Senegal
Serbia & Montenegro
Seychelles
Sierra Leone
Solomon Islands
Somalia
South Africa
Sri Lanka
Suriname
Swaziland
Tanzania
Thailand
Togo
Tonga
Trinidad and Tobago
Tunisia
Turkey
Tuvalu
Uganda
Ukraine
Uruguay
Uzbekistan
Vanuatu
Venezuela
Western Sahara
Yemen
Zambia
Zimbabwe

Least-Developed Beneficiary Developing Countries

Afghanistan
Angola
Bangladesh
Benin
Bhutan
Burkina Faso
Burundi
Cambodia
Cape Verde
Central African Republic
Chad
Comoros
Congo (Kinshasa)
Djibouti
East Timor
Equatorial Guinea
Ethiopia
Gambia
Guinea
Guinea-Bissau
Haiti
Kiribati
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mozambique
Nepal
Niger
Rwanda
Samoa
Sao Tome and Principe
Sierra Leone
Solomon Islands
Somalia
Tanzania
Togo
Tuvalu
Uganda
Vanuatu
Yemen
Zambia

Endnotes

1. Data compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission.
2. *The Economist*, September 17, 2009, "Developing Countries & Global Warming: A Bad Climate for Development."
3. UNEP Information Note, "How Close are We to the Two Degree Limit?" http://www.unep.org/PDF/PressReleases/temperature-briefing-21-02-10-final-e.pdf
4. Levi, Michael A. *Foreign Affairs* (September/October 2009) "Copenhagen's Inconvenient Truth."
5. http://www.oecd.org/dataoecd/6/21/39762914.pdf
6. Marlowe Hood, "Top UN Climate Scientist Backs Ambitious CO2 Cuts," Agence France Presse, August 25, 2009.
7. Frank Ackerman, Eban Goodstein, and Kristen Sheeran, "The Economics of 350," Grist.org, October 6, 2009.
8. World Bank Book, 3.
9. UNEP Information Note, "How Close are We to the Two Degree Limit?" http://www.unep.org/PDF/PressReleases/temperature-briefing-21-02-10-final-e.pdf
10. Edward Gresser, *Foreign Affairs*, "Taxing the Poor" July 30, 2008.
11. Edward Gresser, *Foreign Affairs,* "Taxing the Poor" July 30, 2008.
12. Edward Gresser, *Foreign Affairs,* "Toughest on the Poor: American's Flawed Tariff System" November/December 2002.
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14. Kimberly Elliot, *Center for Global Development,* "U.S. Trade Policy and Global Development."
15. Kimberly Elliot, *Center for Global Development,* "U.S. Trade Policy and Global Development."
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17. Xinsehn Diao, Eugenio Diaz-Bonilla, Sherman Robinson, International Food Policy Research Center, "How Much Does it Hurt? The Impact of Agricultural Trade Policies on Developing Countries." August 2003.
18. As discussed in the following section on WTO compliance, under current WTO law, exemptions to the Most Favoured Nation clause are only allowed for developing countries and for environmental exceptions. While it is plausible that an environmental exception could be applied here, the inclusion of developed countries in the MFGN proposal would likely run afoul of WTO regulations (in violation of the Most Favored Nation clause).
19. The following countries are classified as LDC by the WTO: Angola, Bangladesh, Benin, Burkina Faso, Burma (Myanmar), Burundi, Cambodia, Central African Republic, Chad, Democratic Republic of Congo, Djibouti, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldive Island, Mali, Mauritania, Mozambique, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Solomon Islands, Tanzania, Togo, Uganda, and Zambia.
20. See Appendix A for a complete list of eligible beneficiary countries.
21. Office of the USTR GSP Guidebook.
22. Office of the USTR GSP Guidebook.

23. Office of the USTR, "2009 Products Not Eligible for GSP" http://www.ustr.gov/sites/default/files/Non-GSP-products-in-2009.pdf.
24. Copenhagen Accord.
25. McKenzie, 5.
26. The EU GSP+ program provides preferential trade access for least developed countries provided they sign a number of treaties, including labor rights, environmental, etc.
27. McKenzie, 6
28. Mckenzie, 6.
29. CIA World FactBook: Vietnam.
30. CIA World FactBook; USITC DataWeb.
31. Climate Analysis Indicators Tool (CAIT) version 7.0. (Washington, DC: World Resources Institute, 2010). Available at http://cait.wri.org.
32. These numbers seem to be low-balled since Vietnam is already emitting 176.9 MtCo2, according to CAIT.
33. Edward Gresser, *Foreign Affairs,* "Taxing the Poor" July 30, 2008.
34. Ramya Vijaya, "Broken Buffer: How Trade Adjustment Assistance Fails Workers," Demos, February 2010.
35. WTO-UNEP, *Trade & Climate Change,* 2009.
36. *The Economist,* September 17, 2009. "Developing Countries and Global Warming: A Bad Climate for Development."
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38. http://ec.europa.eu/trade/issues/sectoral/industry/tntb/index_en.htm, WTO World Tariff Profiles 2008, p. 78
39. http://www.nytimes.com/2009/05/06/opinion/06price.html