

# Trade Implications of Policy Responses to the Crisis

## Green Protectionism

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## What is green protectionism?



- I. The intentional use of tariffs, government procurement, subsidies or other traditional non-tariff measures to protect or support a nascent “green” industry (e.g., fuel ethanol). *Variation:* reluctance to liberalize environmental goods so as to protect products with dual uses (e.g., pumps)
- II. The strategic use of environmental policies to protect or support a domestic industry (e.g., chemical residues in textiles or farm products), green or non-green
- III. Government environmental policies that unintentionally reduce foreign producers’ access to the domestic market (e.g., pesticide re-registry laws)



## Pre-crisis green trends



- Increasing sense of urgency surrounding big environmental issues – climate change, biodiversity, water. Linked, from 2003 with “peak oil” and general concerns about energy.
- Increasing stress on renewable energy (variously defined) and on addressing growth of petroleum-fuelled transport.
- Continuing regulation of industrial and agricultural chemicals.
- Proliferation of sustainability standards (organics, forest products, fish), *and* of an industry to certify sustainability.



## This meant ...



- Serious proposals for border adjustment (import taxes or requirements to purchase carbon offsets) in the EU and US.
- Large public investments in renewable energy, notably biofuels. Some industries also protected by tariffs. Huge differences in support levels (e.g., solar energy) across countries in some cases created market distortions.
- Rapid phase-out of some traditional chemicals, favouring newer, more-sophisticated chemicals (usually produced in developed countries).
- New barriers to exporters because of proliferation of different sustainability standards *and* lack of accredited certifiers in the developing countries.



## Has the crisis increased green protectionism?



- Hard to say: in general, developed countries have so far refrained from raising tariffs to protect or support any industry, including “green” industries. Limited increases in tariffs by DCs, even some decreases.
- The crisis may have made the strategic use of environmental policies to protect domestic industries more acceptable, but too early to tell.
- However, the crisis *has* encouraged government investment in environmental infrastructure, particularly renewable energy, cleaner cars, and water.
- Whether such investments favour domestic over foreign producers depends how provided, and whether there are “sleeper” protections in place.



## Numerous measures relate to transport, RE



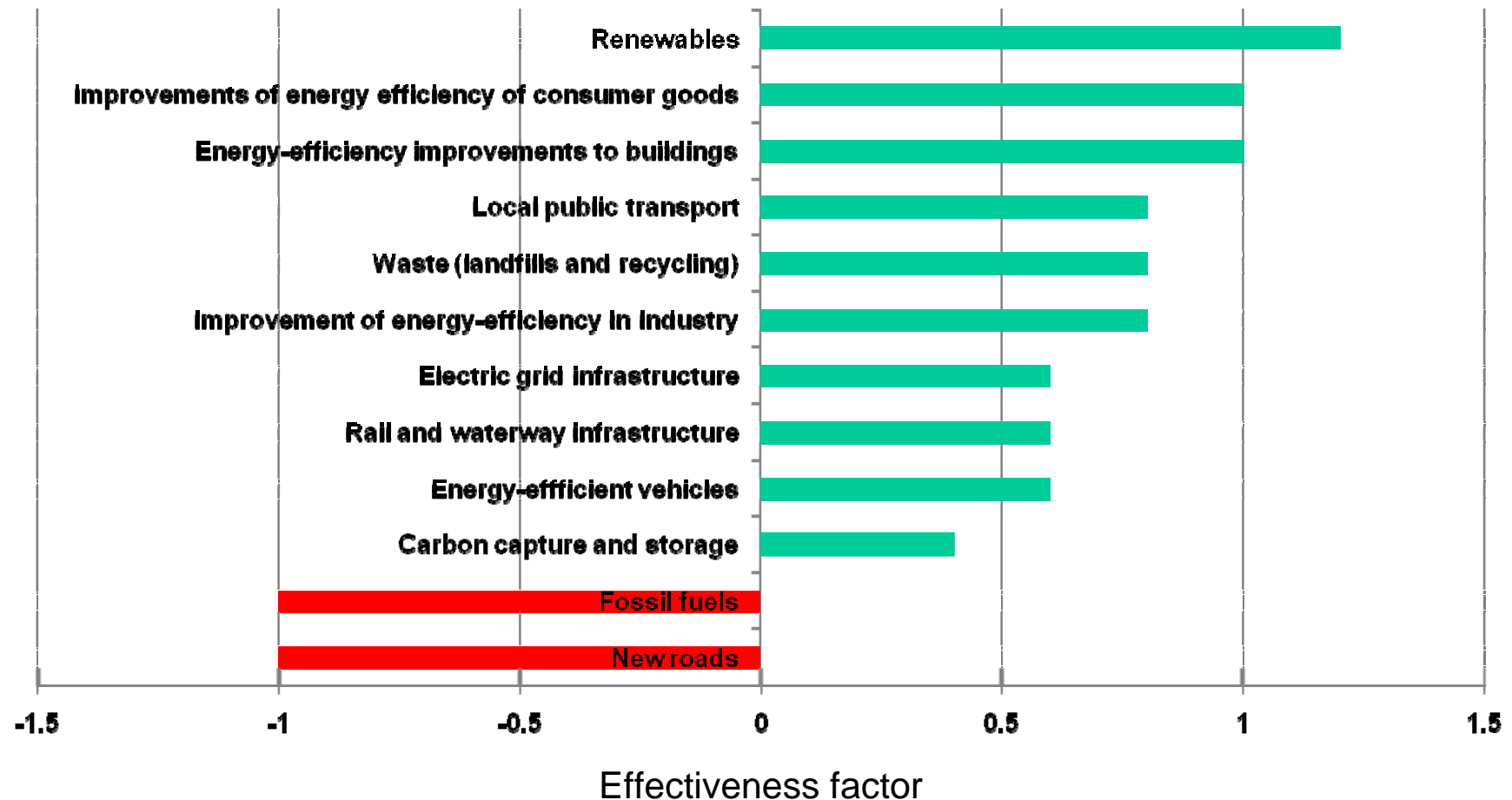
- Increased R&D assistance for electric vehicles, hydrogen fuel cells, liquid biofuels.
- Consumer incentives – e.g., bonuses for greener vehicles.
- Scrapping incentives for old cars.
- Investments in road networks, rail (USD 122 billion worldwide), and urban transport.
- Increased budget to subsidize upgrading of electricity grids, new renewable-energy electricity generating capacity.



# E3G and WWF effectiveness factors



## Area of government support



Source: Höhne et al. (2009).



## Most not overtly trade distorting



- Increased R&D assistance will favour domestic producers, but should be spill-over benefits for rest of the world.
- Neither consumer incentives for greener vehicles nor scrapping incentives discriminate against foreign car-makers. However, “green” criteria vary widely.
- Publicly-supported investments in transport, electricity grids will – so the countries say – abide by WTO government-procurement rules.
- However, some stimulus package money being used to rescue industries (like existing biofuel producers) already heavily dependent on subsidies.





## Nonetheless, free traders need to be vigilant



- Economic crises always increase domestic pressure for protection generally.
- Big problem: in many countries, advocates of renewable energy and greater government encouragement of green industries have over the years over-sold the numbers of domestic jobs that would be created.
- Example: in the middle of this decade, a number of detailed studies were undertaken in the United States to identify how many jobs would be created, and in what states, from major increases in solar and wind capacity. The studies completely ignored trade.



## Big challenge for the future: climate change



- Idea of using border adjustments to deal with carbon leakage and competitiveness concerns is still popular. Trade effects depend importantly on whether domestic producers themselves pay for carbon permits.
- Green protectionism not only a potential problem for the world's trading system, but also to environmental goals.
- Threat of using trade measures already having a chilling effect on negotiations: "Trading partners in the rest of the world will hardly believe that the discretion abused in existing national environmental regulation will not be abused again ... ." (Evenett & Whalley, 2009).
- However, the economic crisis also provides opportunity to address climate change in trade-enhancing ways — e.g., reduce or eliminate subsidies to fossil fuels, and activities that consume fossil fuels; and reduce tariffs and non-tariff barriers to trade in climate-change mitigation technologies.



## Policy recommendations



- Learn to recognize stealthy protectionism, especially dressed up in green camouflage.
- Don't over-sell the domestic employment benefits of green investments.
- If markets are distorted by other policies, it may be better to fix those policies before committing large public funds.
- Difficult to get the balance right: delaying investments may lock in more polluting activities, but rushing decisions may lock in poorly performing or expensive “greener” solutions.
- We need more transparency on ALL policies, not just current stimulus package, plus better information on what our policies are actually doing for, and to, the environment.



# Thank You



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