

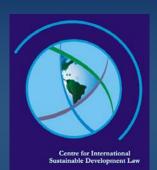


CAMBIO CLIMATICO, COMERCIO Y COOPERACION EN AMERICA LATINA 17 Nov 2009 / Rio de Janeiro, Brasil

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### **CISDL**



The Centre for International Sustainable Development Law (CISDL) www.cisdl.org

### **CISDL Programming:**

- Dialogue: Conferences (Sustainable Justice 2002: Implementing International Sustainable Development Law, Montreal); Legal Experts Panels (WSSD, UN CBD, WTO, UNCCD); Academic Workshops (McGill, Yale, Oxford), etc.
- Curriculum: Legal Seminars & Courses (McGill, Oxford, UVic, Capetown, UdM, Cambridge, Chile, etc.); Judicial Education (UNEP, IDLO, NJI).
- Research: Six Research Programmes, led by nine Lead Counsel, with over 80 Legal Research and Associate Fellows and a Student Research Group.
- Partnerships: International Law for Sustainable Development Experts Panel Event at the 2002 WSSD launched the CISDL-IDLO-ILA ILSD Partnership.



### SD Law on Climate Change:



- CISDL · Climate Dialogue: International Law Symposium in Montreal COP 11/MOP 1; Nairobi COP13/MOP3 Legal Experts Panek, Bali COP14/MOP4 Legal Experts Panek, Copenhagen COP 15 / MOP 5 Legal Experts Panel, Workshops & Seminars.
  - Climate Curriculum: International Legal Seminars & Courses (IDLO, UNCSD, etc.); Judicial Education (UNEP, IDLO, NJI); Guest lectures (Chile, China, etc).
  - Climate Law Research: Implementation of Kyoto Protocol Commitments; Emissions Trading Regimes; Arctic Land Claims and Climate Change; Human Rights and Climate Change; Climate Change Adaptation and Sustainable
  - Climate Law Publications of Fellows: Charlotte Streck & David Freestone, eds., Making Kyoto Work: Legal Aspects of Implementing the Kyoto Protocol Mechanisms (Oxford: Oxford University Press, 2004); Dr. Lavanya Rajamani, Differential Treatment in International Environmental Law (Oxford, Oxford University Press, 2006); Sustainable Development Law on Climate Change Legal Working Paper Series (Montreal: CISDL, 2007).
  - Climate Law Partners & Fellows: IDLO, NJI, CIDA, Government of Québec, ICHRP, Arcticnet, UNEP. Fellows in Hong Kong, Brussels, New Delhi, Montreal, Cambridge, Montevideo, Nairobi, Kyoto & Santiago.

Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy

### Caveat

This keynote presents personal views only, developed through the speaker's academic work as an international legal scholar, and do not in any way represent a position taken by a government.



### **Presentation Overview**

- 1) The Context of Copenhagen COP 15
- 2) Need for Sustainable Development of the Low-Carbon Economy
- 3) Options to Activate a Forward International Economic Agenda...
  - Cooperate to Strengthen UNFCCC Carbon Finance Mechanisms?
  - Cooperate to Transform International Trade & Investment Rules?
  - Cooperate with Emerging Sectoral Partnerships / Agreements
- 4) Conclusions

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### Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy

### 1. The Context of Copenhagen COP 15

- Climate change will have disastrous impacts in both developed & developing countries, especially for the 'bottom billion'
- Demand for energy & other economic activities continue to increase, especially in Latin America
- How to de-couple economic growth from fossil fuels? How to secure sustainable development of a low-carbon economy?
- Highly complex international regimes exist for SD (environment, trade, investment, development) - many existing promises are still unfulfilled
- Lack of coherence & conflicts can waste valuable compliance resources
- We need to get onto the same page, activating international economic & environmental policy to achieve low-carbon sustainable development



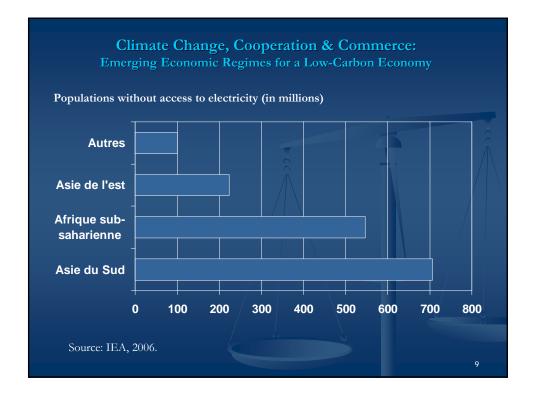
# Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy CLIMATE CRANCE CRANCE

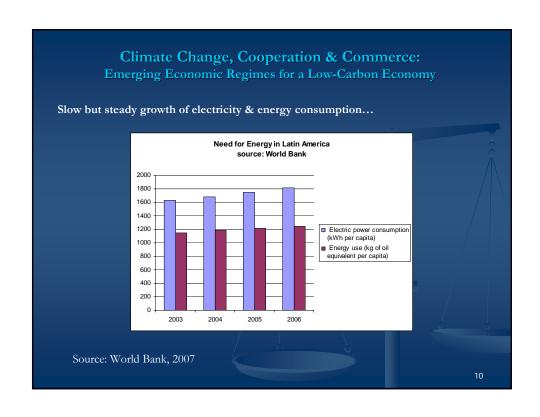
### Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy

### 2. Need for Sustainable Development of a Low-Carbon Economy

- To reduce greenhouse gas emissions
  - UNFCCC, Art. 2: "The ultimate objective ... is to achieve... stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system."
  - See also KP, Arts 2 & 3.
- To promote *sustainable* development
  - UNFCCC, Preamble: "... responses to climate change should be coordinated with social and economic development in an integrated manner with a view to avoiding adverse impacts on the latter, taking into full account the legitimate priority needs of developing countries for the achievement of sustained economic growth and the eradication of poverty,"
  - UNFCCC, Art. 2: one objective is to "enable economic development to proceed in a sustainable manner."



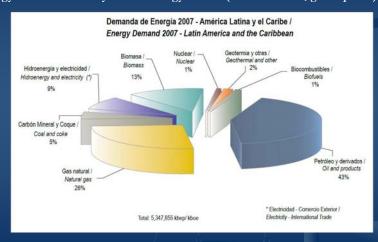








Energy demand is met by diverse energy sectors (still much coal, gas & petrol)



Source: OLADE, 2007.

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### Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy

- To promote sustainable development, thru clean tech transfer & financing
  - UNFCCC, Art. 4(1)(c): "Promote and cooperate in the development, application and diffusion, including transfer, of technologies, practices and processes that control, reduce or prevent anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol in all relevant sectors, including the energy, transport, industry, agriculture, forestry and waste management sectors";
  - UNFCCC, Art. 4(5): "The developed country Parties and other developed Parties included in Annex II shall take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and knowhow to other Parties";
  - KP, Art. 2(1)(a)(iv): commitment to "Research on, and **promotion, development and increased use of, new and renewable forms of energy,** of carbon dioxide sequestration technologies and of advanced and innovative environmentally sound technologies";
  - KP, Art. 10(c): "Cooperate in the promotion of effective modalities for the development, application and diffusion of, and take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies, know-how, practices and processes pertinent to climate change, in particular to developing countries, including the formulation of policies and programmes for the effective transfer of environmentally sound technologies that are publicly owned or in the public domain and the creation of an enabling environment for the private sector, to promote and enhance the transfer of, and access to, environmentally sound technologies";



- To promote sustainable development, thru clean tech transfer (cont)
  - Delhi Ministerial Declaration, Para. (i): "Technology transfer should be strengthened, including
    through concrete projects and capacity-building in all relevant sectors such as energy,
    transport, industry, health, agriculture, biodiversity, forestry and waste management.
    Technological advances should be promoted through research and development, economic
    diversification and strengthening of relevant regional, national and local institutions for
    sustainable development";
  - Delhi Ministerial Declaration, Para. (k): "Actions are required to diversify energy supply by
    developing advanced, cleaner, more efficient, affordable and cost-effective energy technologies,
    including fossil fuel technologies and renewable energy technologies, hydro included, and their
    transfer to developing countries on concessional terms as mutually agreed";
  - UNFCCC COP Decisions on the development and transfer of technology (Decs 13/CP.3, 4/CP.4, 4/CP.7, 6/CP.10, 6/CP.11, 3/CP.12 and 4/CP. 13).

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- To promote sustainable development, thru open economic system
  - UNFCCC, Art. 3(4): "The Parties have a right to, and should, promote sustainable development. Policies and measures to protect the climate system against human-induced change should be appropriate for the specific conditions of each Party and should be integrated with national development programmes, taking into account that economic development is essential for adopting measures to address climate change."
  - UNFCCC, Art 3(5): "The Parties should cooperate to promote a supportive and open international economic system that would lead to sustainable economic growth and development in all Parties, particularly developing country Parties, thus enabling them better to address the problems of climate change. Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade."
  - KP, Art. 2(2): Annex I Parties "shall strive to implement policies and measures under this Article in such a way as to minimize adverse effects, including the adverse effects of climate change, effects on international trade, and social, environmental and economic impacts on... developing country Parties";
  - Delhi Ministerial Declaration on Climate Change and Sustainable Development, Decision 1/CP.8, Para. (b)



### 3. Options for a Forward Economic Cooperation Agenda...

- Cooperation to Develop & Activate Carbon Finance Mechanisms?
- Cooperation to Transform Intl Trade & Investment Rules?
- Cooperate with Emerging Private Sectoral Agreements?

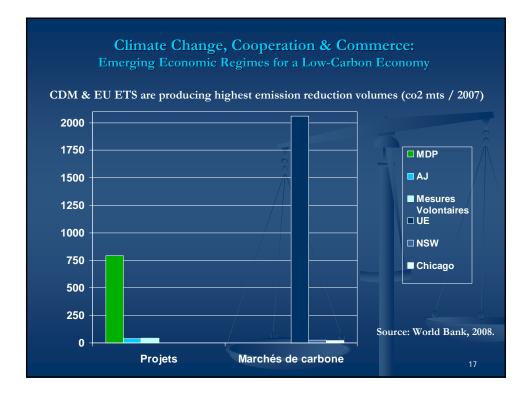
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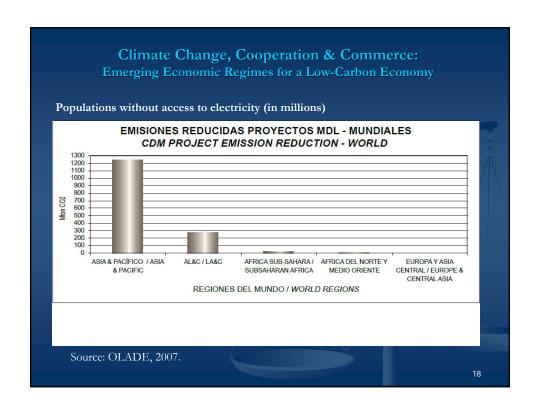
### Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy

### 3.1 Cooperation to Develop Stable Carbon Financing

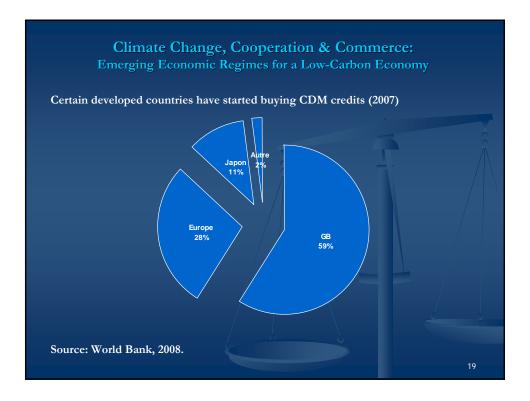
- Develop & test appropriate low-carbon technologies?
- Carbon procurement under Clean Development Mechanism?
- Strengthen & access the Prototype Carbon Fund (& its sisters)?
- Prepare adaptation and mitigation strategies (ODA)?
- Consider national market based instruments (eco-taxes)?

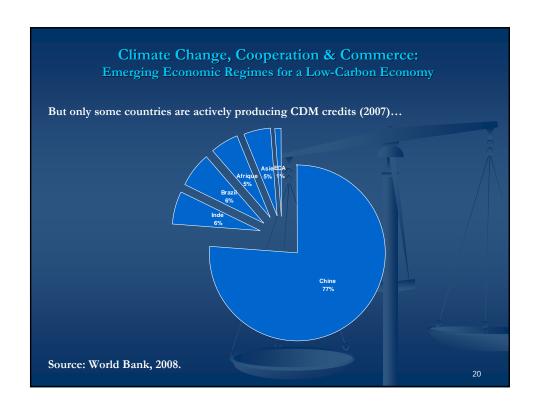




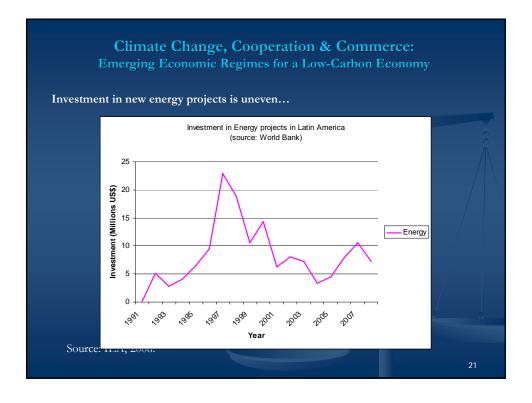


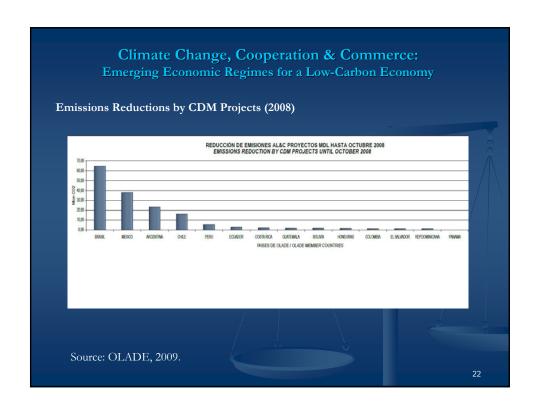














## What are Priority Carbon Financing Opportunities for Latin America?

- Clean Development Mechanism projects?
- Strategies to de-couple economic growth from carbon?
- Investments in new energy technologies?
- Adaptation strategies?

### How to Support these Opportunities in Latin America?

- New regulations to incentivize investment & support CDM?
- New subsidies & tax incentives for clean tech projects?
- Strengthened capacity building, education & training?
- National adaptation planning processes?

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### Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy

### 3.2 Cooperate to Transform Intl Trade & Investment Rules

- Stimulate private investments in low-carbon economy
  - Private and intra-company carbon markets to collect & reduce carbon
  - Equity investments in low-carbon projects
  - Increased private research, development & testing of low-carbon technology
  - Private commercialization of clean technologies
- Stimulate international trade in low-carbon goods & services
  - Comparative advantages of diverse renewable energies
  - Increased trade in low-carbon technologies for all sectors



### Will Trade & Investment Treaties Foster or Frustrate Sustainable Development of a Low-Carbon Economy?

- Need for liberalisation & stability to attract capital-intensive renewable energy & clean technology investments
- Need to harness the potential of international law beyond the UNFCCC & the Kyoto Protocol:
  - **I. Investment rules**: Current global rules governing low-carbon investment: UNCITRAL, ICSID and the 2700+ BITS
  - **II. Trade rules:** Current global rules governing low-carbon trade: WTO, 350+FTAs and Energy Charter-type initiatives

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### Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy

### I. Cooperation on New Investment Treaty Rules (BITS)?

### An Emerging Network of Int'l Investment Agreements (IIAs):

- Current int'l legal framework governing foreign investment is a vast network of over 2500 IIAs.
- In 2005, 1,891 (75.8 %) in force, + 232 other FTAs with investment provisions, + other regionals.
- While other treaties and norms intersect and interact, IIAs are the primary public international law instruments that govern foreign investment.
- IIAs seek to create 'favourable conditions' or a 'stable framework' for investment, for economic development, by impose binding obligations on States re: treatment of foreign investment:
  - (i) a wide asset-based definition of investment;
  - (ii) guarantees of non-discrimination (national and most-favoured-nation treatment);
  - (iii) a minimum standard of treatment often expressed as 'fair and equitable treatment' coupled with an obligation not to impose arbitrary or discriminatory measures;
  - (iv) the right to transfer investments and profits out of the host state; and
  - (v) compensation for measures tantamount to expropriation.
- A smaller number of IIAs provide for rights of entry for foreign investment, prohibitions on performance requirements, and 'umbrella clauses' under which a state agrees to observe its commitments to foreign investors.



### Concerns: Would investors try to use IIAs to challenge climate laws and policies? And succeed?

- In most IIAs, foreign investors enforce new rights through investor-state arbitration provisions, using State's general consent to arbitration.
- As of December 2005, 135 IIAs claims had been brought before ICSID, with 229 known investment treaty arbitrations total. Over 2/3 were filed after 2001.
- Concern: BITS rules on 'regulatory expropriation' might limit pollution control measures
- Concern: BITS rules on performance requirements might limit tech transfer measures
- Concern: BITS rules on 'fair & equitable treatment' might constrain cap & trade credit allocations
- Concern: BITS rules on 'transparency & notification' might constrain new laws
- Concern: BITS stabilization clauses limit new climate laws.

... will new investor claims lead to regulatory chill?

### Concerns founded on cases

Such concerns first raised in controversial claims:

\* Ethyl v. Canada: challenged export/inter-provincial trade ban on MMT fuel additives;

\* Metalelad v. Mexico: challenged closure of hazardous waste site;

\* Methanew v. United States: challenged Californian ban on the use of MTBE fuel additive.

\* Maffezini v. Spain challenged environmental or sustainability impact assessments requirements for projects. requirements for projects, \* Glamis v. United States challenged reclamation requirements for mines, \* XYZ v. South Africa challenged

black economic empowerment mining properties,
\* EnCana v Ecuador challenged taxes on the hydrocarbon industry
\* MTD v Chile challenged land use zoning, and
\* Cheating Cork v Canada)

\* Chemtura Corp. v. Canada) challenged the phase-out of agro-chemicals

### Climate Change, Cooperation & Commerce:

**Emerging Economic Regimes for a Low-Carbon Economy** 

### Potential for Progress: How can IIAs promote investor confidence, wise

- Elements of standard IIAs could contribute to investor confidence (scope, national treatment, no expropriations, investor-state arbitrations)
- Some countries/regions conduct environment & sustainability reviews / assessments of their IIAs; some even take outcomes into considerations...
- Many IIAs contain general exceptions for conservation of natural resources
- Certain pioneering IIAs also contain sustainable development provisions:
  - Energy Charter Treaty commits to encourage renewables
  - (Weak) preambular environmental commitments in some BITS
  - 'Not to lower standards to attract investment' provisions in some BITS
  - CSR provisions in some FTA Investment Chapters (Peru-Canada FTA)
- Recent Parkering arbitral award suggests public interests could be included in assessment of 'like circumstances' ... Upcoming Vattenfall arbitration serves as test case



### II. Cooperation on New WTO / Free Trade Agreement Rules?

- Concern: WTO/FTA core national treatment & most favoured nation (MFN) liberalisation obligations *versus* carbon taxes, border adjustment taxes, emissions trading rules / incentives, & other PPM-based incentives
- Concern: WTO/FTA rules on technical barriers to trade versus certification schemes, emissions trading regimes, penalties for high emission technologies & other rules to promote renewable energy and low-GHG technologies.
- Concern: WTO/FTA rules on intellectual property versus measures to encourage and ensure technology transfer
- Concern: WTO/FTA rules on government procurement versus green procurement schemes, certification systems & performance requirements
- Concern: WTO/FTA rules on subsidies versus subsidies for climate-friendly technologies and low-carbon economy initiatives

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### Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy

# Could WTO/FTA rules be used to promote low-carbon technologies & sustainable development cooperation?

- 1) Procedural innovations (impact assessments, consultations, transparency mechanisms, public participation, technical assistance and capacity-building, financing)
- 2) Preamble commitments to sustainable development in trade treaties (RTAs promote, ECAs principle, WTO Doha Declaration objective)
- 3) Provisions which create 'windows' or exemptions from trade rules, where trade obligations might otherwise constrain regulators and policy-makers (general exceptions, interpretive statements, specific exceptions, explicit reservations)
- 4) Provisions which develop 'value-added' but parallel social and environmental cooperation (parallel agreements/chapters/protocols, new institutions, common work programmes, capacity-building, technology transfer and financing commitments, factual report / complaints mechanisms, CEC carbon market)



- 5) Constructive 'sustainable development' oriented trade rule enhancement initiatives, positive 'triple-wins' within FTAs:
  - a. sanitary and phytosanitary provisions which promote scientific cooperation and risk assessment to address climate-related health concerns
  - b. the promotion and protection of investments which deliver on international climate priorities (such as Kyoto CDM),
  - c. government procurement provisions which make public purchasing of sustainable development goods or services more affordable (e.g. enviro certified construction & hybrid fleets)
  - d. technical barriers to trade provisions to encourage non-discriminatory low-emission standards and promote mutual recognition of certification,
  - e. intellectual property rights provisions which support biodiversity protection and the recognition of traditional knowledge,
  - f. liberalisation of environmental goods and services (including renewables technologies, waste management & environmental consulting services).

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### Climate Change, Cooperation & Commerce: Emerging Economic Regimes for a Low-Carbon Economy

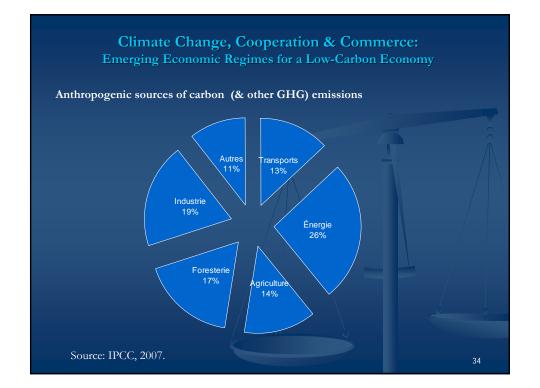
NAFTA	Parties resolve to "promote sustainable development": Preamble
Canada-Chile and US-Chile FTAs	Parties resolve to "promote sustainable development": Praamble  Parties "recognize importance of strengthening capacity to protect the environment and promote sustainable development": Art 19.5 US-Chile
US-Australia FTA	Implement "in a manner consistent with their commitment to high labour standards, sustainable development, and environmental protection.": Preamble Chapter 19 (Environment); Prevails to the extent of the inconsistency. Art. 11,2
Mercosur	Objective of "sustainable development and environmental protection through the development of economic, social and environmental dimensions: Art 4, Ch 2, Framework Agreement on the Environment
India-Singapore CECA	" Economic and trade liberalisation should allow for the optimal use of natural resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment.": Preamble
UK-Uruguay BIT	Exceptions to performance requirements: Art. 8; Not weakening environmental and labour laws:  Arts 12 & 13; Appointment of experts on environmental, health safety or other scientific measures: Art. 32.
Canada-Peru BIT	" promotion and the protection of investments of investors of one Party in the territory of the other Party will be conducive to the promotion of sustainable development": Preamble
Germany-Trinidad & Tobago BIT	"Recognizing the important complementary role of foreign investments in the process of economic development, recognizing also the increasing need for measures to protect the environment":  *Preamble**



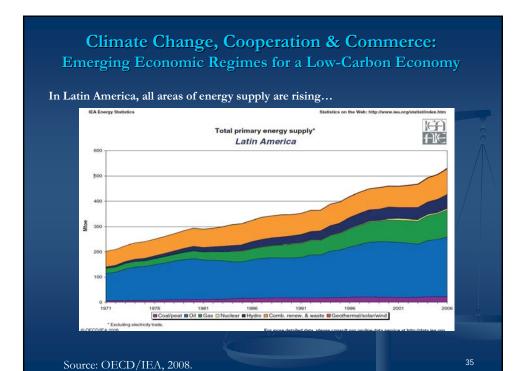
### 3.3 Cooperation with Emerging Private Sector Partnerships?

- Track industry-led initiatives & engage sectors

  - International aviation (ICAO debates) w clean tech projects? International shipping (IMO debates) w new 15b fund for mitigation?
- Stimulate innovations in clean technology development
  - Agriculture, Local Transport, Construction, Forestry, Industry, Energy
  - Change the composition of technologies in some sectors (energy)
- Stimulate competition & signal advantages for early actors
  - Comparative advantages of low-carbon development & efficiencies
  - Reputation gains & consumer goodwill
  - Avoid litigation and potential liability







### 5. Potential Low-Carbon Economy Policy Directions

- 5.1 Further Develop SD Law on Carbon Financing...
   scope and depth of emission reduction commitments, stable frameworks for adaptation financing, public funds for technology transfer, efficiency innovation measures, emissions trading systems, clean development mechanism...
- 5.2 Further Incentivize Economic Trade & Investment for Low-Carbon SD...
  process changes, SD obligations, 'like circumstances' and 'like products' distinctions,
  reservations/exceptions, climate cooperation provisions, 'win-win' T&I rules to promote
  SD law on climate change (green procurement programmes, subsidies for energy
  efficiency, sustainable land-use and clean energy investment frameworks)...
- 5.3 Develop New Sector Agreements for Industry Competition/ Innovation...
   Industry-wide emission reduction targets & funds, commitments to develop & implement new sectoral technologies, voluntary sector-specific climate change standards, tax incentives...



It is time to harness international economic rules for a low carbon future... in Copenhagen and beyond.

- Climate commitments provide moral imperative
- Oil price fluctuations provide economic imperative
- The opportunity is now.

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# International Law for Sustainable Development: The Partners







# Centre for International Sustainable Development Law International Development Law Organization & International Law Association

with support from UNEP Legal, World Bank Legal, United Nations Treaty Secretariat, and links to many University Law Faculties and Academies around the world.

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