Economic Impacts of Sustainability Policies

--Case of Carbon Labelling

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The formal establishment of ERIA was agreed upon by all the leaders at the 3rd East Asia Summit.

Establishment of ERIA approved by 3rd EAS, Nov 21, 2007, SG

13. We agreed to the establishment of the Economic Research Institute of ASEAN and East Asia (ERIA) to be accommodated temporarily at the ASEAN Secretariat. We welcomed the report submitted to us by the Expert Group, which focuses on research topics of strategic interest to the EAS countries. We encouraged the Expert Group to continue its research work and we looked forward to practical policy recommendations to further regional integration and strengthen partnerships in East Asia.

Following the agreement at the 3rd EAS meeting, formal agreement to endorse the status of ERIA as an International Organization was concluded on December 30, 2008 between the Indonesian Government and ASEAN Secretariat.
### 3rd East Asia Summit
(21 November 2007)

**ERIA**

1. Support ASEAN Secretariat in Regional Integration & Cooperation
2. Deepening Economic Integration
   - Comprehensive Mapping of ASEAN + FTAs
   - Geographical Simulation Analysis for ASEAN, China and India
3. Narrowing Development Gaps
   - Development Strategy for CLMV Countries
   - Development of Social Safety Net in East Asia
   - SMEs in Regional Production Networks
   - Productivity Impact of Trade and Investment Liberalization
4. Sustainable Economic Development
   - Environment and Energy Policies for South East and East Asia
   - Projects on Energy Saving, Biomass Energy Development and Energy Market Integration

### East Asia Summit on Global Economic and Financial Crisis
(3rd June 2009)

- Strengthen Partnership
- Deepen Regional Integration

### 15th ASEAN Summit / 4th East Asia Summit
(23, 25 October 2009)
17th ASEAN Summit / 5th East Asia Summit
(28, 30 October 2010)
19th ASEAN Summit / 6th East Asia Summit
(17, 19 November 2011)

**Comprehensive Asia Development Plan (CADP)**

### ASEAN Master Plan on Regional Connectivity

**EAS Energy Ministers Meeting**
- (3th, 29 July 2009; 4th, 22 July 2010; 5th, 20 Sep 2011)
- EAS Energy Outlook
  - Biofuel and Biomass, EMI and new projects

- 41st ASEAN Economic Ministers Meeting (15 August 2009)
- 4th Meeting of ASEAN Economic Community Council (25 Aug 2011)
- Preparatory Meeting of ASEAN Economic Ministers (6 May 2011)
- 43rd ASEAN Economic Ministers Meeting (11 August 2011)
- Preparatory Meeting of ASEAN Economic Ministers (16 Nov 2011)
- 7th ASEAN Economic Community Council (2 April 2012)
- 8th ASEAN Economic Community Council (28 August 2012)

**AEC/ERIA Scorecard**
- AEC Blueprint MTR

- 15th ASEAN Transport Ministers Meeting (10 Dec 2009)
- 16th ASEAN Transport Ministers Meeting (11 November 2010)

**ASEAN Strategic Transport Plan (ASTP) 2011-2015**

### ASEAN Economic Community

### East Asia Community
EAS Energy Cooperation

East Asia Summit (EAS)

EAS Energy Minister Meeting (EMM)

Energy Cooperation Task Force (ECTF) (2nd EAS, 2007)

Energy Efficiency and Conservation Work Stream (Japan)
- Analysis of Energy Saving Potential WG (2007-)
- ERIA WG on Energy Efficiency Road-mapping (2010-)
- ERIA WG on Energy Security Index (2011-)

Bio-fuels for Transport and other Purposes Work Stream (The Philippines & India)
- Benchmarking of Biodiesel Fuel Standardization WG (2007-)
- Sustainability Assessment of Biomass Utilization WG (2007-):
  - Market Potential of Biofuels (2011-)

Energy Market Integration Work Stream (Singapore & Australia)
- Smart Community Transportation Nuclear Safety Clean Coal Energy Outlook

ERIA Working Group (2009-):
Introduction

- Sustainable development is an idea.
- Sustainability and Development: trade offer but different priority among countries.
- Sustainability policies may be pursued in one country at the cost of economic development in other countries, particularly the DCs.

Two reasons:
- Misuse: trade protection policy (NTBS)
- Technical reasons: Spillover effects
Palm Oil as RE Source

- EU default GHG emissions savings: 19%
  - Assumption: produced from land that has been converted from rainforest

- US assigns a 17% default value
  - Assumption: peat swamps and forests would be cleared to expand plantation

- Asian Studies: >=50% (70% if biogas trapped)

- CPO discriminated in two ways.
  - An arbitrary thresholds (35% in EU and 20% in the US)
  - A low default value (19% by the EU and 17% by the US)
Carbon labelling with spillover effects

- Spillover effects: the impacts of carbon labelling activities in labelling countries upon non-CFP labelling countries

- The spillover effect may be omitted or underestimated by national policy makers and thus may cause serious problems

- The fact that carbon labelling is predominantly implemented in developed countries are also worrisome.
How do they happen

- LCA methodology
  - Means that the requirements of measure GHG emissions will be spilled over along the supply chains.

- Globalized supply chains
  - Supply chains spread across many countries, including those that have no carbon labelling plan
  - The spillover effects become more significant in the current integrated world than in the past
Why do we care (1)

- Carbon labelling may disadvantage non-labelling countries in trade and development for reasons:
  - methodology of design and implementation of carbon labelling.
  - adoption of carbon inventory data.
  - lack of capacity to measure and label (SME and DCs)
- This difficulty in labelling GHG emissions implies that DCs are likely suffered from non-trade barriers
  - Such labelling schemes are beyond their borders and control.
  - More serious in East Asia b/c export-led industrialization
Why do we care (2)

- If carbon labels become NTBs, their role in reducing GHG emissions will be undermined.
  - DCs retreat, or are excluded, from global supply chains, which will limit the opportunities for reducing global GHG emissions.

- Opportunities for both developed countries and DCs.
  - involvement of DCs in carbon labelling schemes will create substantial cost-effective opportunities
  - encourage DCs to leapfrog to green economy
How should carbon labelling be (1)

- Ensure that sustainability aspects and development priority follow a balanced approach.
- Recognise different priority and capacity constraints of SMEs (particularly in DCs).
- Ensure that opportunities for exports from DCs are not seriously damaged due to NTBs.
How should carbon labelling be (2)

- the following principles should be kept:

  The methodology and data should be fair, transparent, and accessible to all stakeholders.

  DCs should be enabled to participate in the development of methodologies.

  SMEs, particularly those in DCs, should be able to get help from authorities, institutes or NGOs.

  Various stakeholders should be engaged in the each step of the carbon labelling process.
What can we do (1)

Some of the following 4Es actions may reduce the negative spillover economic effects of carbon labelling schemes:

**Establish an equitable labelling system:**
- Policy should pay attention to the impact of their decisions beyond their national boundary.
- The methodology should not discriminate the DCs and SMEs in data collection and verification requirements.

**Enable participation of DCs:**
- Capacity building;
- Technical assistance and technology transfer
- ODA
What can we do (1)

Some of the following 4Es actions may reduce the negative spillover economic effects of carbon labelling schemes:

**Enhance technical and financial capacity of SMEs.**
- ✓ Low cost approaches to obtaining data;
- ✓ Training and support

**Engage stakeholders:**
- ✓ Non-labelling countries and SMEs should be properly represented.
- ✓ Institutional arrangements for dialogue between labelling and non-labelling countries
- ✓ DCs should be more active: escapism makes things worse
Conclusion (1)

- Sustainability policies in a country may create undesirable consequences within and beyond the country (spillover effects)
- Misuse of such policies is one reason
- More importantly, the consequences is caused by technical reasons:
  - LCA method and integrated production
  - such spillover effects may discriminate non-labelling countries
Conclusion (2)

- However, the engagement of Non-labelling countries is beneficial.
- Carbon labelling, although desirable, need to be balanced between sustainability and development.
- Necessary measures, including an equitable labelling system, capable participation of DCs and SMEs, and full engagement of all stakeholders.
Conclusion (3)

• Key Messages:

✓ Sustainability policies may have negative economic impacts (in terms of trade and development) within and outside the implementing countries and thus they should be implemented in more coordinated (among countries) and inclusive ways (among stakeholders)

✓ This requires active dialogues between implementing countries and non-implementing countries
Thank you!

Comments are welcome!

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References: