

# G2 HACKATHON CHALLENGE

How to Make the WTO  
Fit for Future Trade



INSTITUTE OF INTERNATIONAL  
ECONOMIC LAW  
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Geneva Trade  
Platform

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## 2021 Hackathon Submission

Creating a global carbon market through  
the WTO

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Watch the Video



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### Question #1

Define the substantive issue that your team is addressing, why it's a problem, and why your team believes the WTO is the right forum to address it.

Throughout the 21st century, climate change has negatively impacted the global environment and is currently threatening all life on Earth. Prominent NGOs and accredited institutions such as UNESCO concur that the effects of Global Warming will intensify weather events, raise temperatures globally, further destabilize vulnerable regions, and increase the chances of a conflict. This global humanitarian crisis is promulgated by excessive and unrestricted carbon dioxide (CO<sub>2</sub>) emissions.

One hundred ninety-seven countries have made commitments to keep global warming below 2°C, which implies a reduction of CO<sub>2</sub> emissions. One of the most recent commitments has been the Paris Agreement at the COP21 (2015), aiming to prevent the global temperature from rising by more than 2°C.

To further address this issue, different countries have adopted carbon trading--a system designed to reduce emissions by allocating a determined number of carbon permits within a country's borders. These permits can be sold if an actor (company or government) does not use all of them, and another actor can buy one to emit more carbon dioxide if needed. This system rewards those who emit less while also being more economically efficient and less disruptive than others to reduce carbon emissions. The most significant agreement in terms of carbon trading is the Kyoto Protocol, which laid the foundations for emissions trading as a mechanism to decrease CO<sub>2</sub> emissions.

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Although these initiatives have been significant and have decreased emissions in some countries, challenges, such as regional isolationist permit trading policies, impede further progress in reducing carbon emissions. To integrate these carbon markets globally, governments and politicians need to work together to create rules and regulations that might allow carbon permits to be traded globally as a good, not only in theory but also in practice. Because the World Trade Organization is a mature institution that has already helped liberalize trade, it is the proper forum to mediate global carbon trading discussions.

Developing one multilateral agreement that treats carbon permits as goods according to WTO rules would reduce the cost of administering carbon trade rules by having the same ones in all markets. Not only that, but the cost of negotiations would be maximized as countries would only need to negotiate one multilateral agreement instead of many bilateral or regional ones. With a framework for transparent and intergovernmental trading of carbon permits, a foundation of multilateral cooperation would be established and set a precedent for future discussions regarding environmentally-related commodities.

Our proposal will tackle these challenges and contribute to strengthening the WTO's position regarding climate change. And as carbon emissions trade has shown its power to reduce emissions, it'll contribute to the fight against climate change.

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## Question #2

Propose a specific treaty text, or more informal commitment/declaration text, that addresses either the concern or a particular, detailed aspect of it.

Creating a Global Carbon Market

Affirming the need for global cooperation and standards to combat climate change by reducing CO2 emissions.

Recognizing that carbon emissions trading is one of the most economically effective ways to reduce emissions.

Understanding the different capabilities of implementing new systems among developed and less-developed countries.

Encouraging members to agree that countries might transfer mitigation outcomes to satisfy their own climate emissions reduction commitments.

1. Liberalizes carbon permit trading between WTO member countries by establishing a carbon trading system through mutual understanding.
2. Classifies carbon permits as a good with all its implications, including but not limited to: the use of the dispute settlement body, compliance with standard transparency practices, and complete adherence to established regulations.
3. Provides technical assistance to countries without a carbon trading system to implement one before 2030.
4. Affirms that member countries will take into account factors such as GDP per capita, the overall size of carbon emissions, and stage of development when determining respective carbon emissions caps.
5. Provides longer timelines for less-developed countries to implement their own carbon trading systems.

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6. Encourages members to engage in diplomatic negotiations with other intergovernmental organizations to develop a fair taxation system for carbon permits.

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## Question #3

Suggest a legal/technical or institutional way to implement your textual proposal within the broader WTO framework (500 words)

Since the primary goal of the “Creating a Global Carbon Market” commitment is to give carbon permits the same treatment as goods, this agreement’s implementation would rely primarily on existing WTO rules regarding them. While other provisions, such as article 3, intend to use existing WTO institutions such as the Trade Policy Review Body and committees, all of which already provide technical assistance to countries in implementing trade policies.

Besides the reliance of the system over existing WTO institutions, the development of a global carbon market would also rely on existing markets such as the EU’s Emissions Trading System and the California-Quebec carbon market. These systems have been successful within their borders and could share with other countries/regions the necessary expertise to implement similar strategies. And when it comes to less developed countries, they are the ones that will be more impacted by climate change, and that need the most resources to implement mitigation strategies and to make their economies less carbon-intensive, so it’s expected that most of them will support a deal that not only will allow them to get funds, but also the technical assistance to develop a carbon-reducing system.

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Given that the EU, China, Russia, and some American states already have carbon markets in place or have taken steps in that way, the expected conflict in negotiations would most probably be around the emissions cap for each country. However, this issue isn't part of the agreement per se. So the debate would take place within each country's borders, according to previous pledges to reduce emissions on other international agreements such as the Paris Agreement. And in the situation of a country finding another country's measures unfair, Members could use the WTO dispute settling mechanism to give a fair and independent space for this debate. Thus, allowing signatories to enforce transparency and accountability under this commitment.

Given the nature of the agreement, which needs countries to develop their carbon trading systems, the mutual understanding of carbon permits would apply online to other signatories of the deal. Given that for a correct functioning of a carbon emissions market, countries would have to be transparent and engage in further diplomatic negotiations in taxation issues.

In the case of members not being able to form a majority or a consensus over the commitment, interested countries shall take the necessary steps to constitute a plurilateral agreement within the WTO framework regarding the carbon emissions market. And even though this situation wouldn't fulfill the original intention of creating a globally integrated carbon market, it would still set the stage for future discussions on environmentally-related commodities at the WTO and leave the door open for countries to join the plurilateral agreement later on.