ERCST

European Roundtable on Climate Change and Sustainable Transition

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Status of the Border Carbon Adjustments' international developments

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Background

The first version of this paper was published in March 2021 with the intention to provide an update on the status of discussions on border carbon adjustments (BCA) around the world. The paper is intended to be updated on a regular basis in order to illustrate the latest developments on BCAs.

This is the sixth edition of the paper with updates on the BCA discussion up to October 2021. It includes recent developments from other jurisdictions reacting to the EU discussion, leading to the formulation of the CBAM proposal in the Fit for 55 European Green Deal Package. The update is considering also the carbon clubs idea, as well as new studies on the impact of BCAs on emissions and global economy.

A BCA is seen as a tool to address the impacts of asymmetrical climate change policies that are emerging under the national determined contributions (NDCs) which Parties to the Paris Agreement have to submit. As a result, the level of effort in different jurisdictions is asymmetrical, resulting in potential impacts on competition and carbon leakage. Countries, especially those that have set ambitious targets and have put in place carbon pricing mechanisms (such as an ETS or Carbon tax), have concerns regarding the impact of carbon leakage and competitiveness on energy-intensive-trade-exposed (EITE) industries.[1]

While under the Kyoto Protocol this was the case only for developed countries, under the Paris Agreement all countries are concerned. Therefore, they seek solutions that will allow them to decarbonize while ensuring that they maintain their competitive stance during this transition period.

Among the solutions put in place to address these issues, free allocation for direct emissions has been the one that has been most used, together with compensation for indirect costs, in some EU jurisdictions. As the level of effort increases, together with the corresponding rise in cost of domestic compliance and the decrease in the amount of free allocation available for EITE industries, new solutions are being explored.

BCAs are not something new, but the EU's political commitment and the expected proposal for a CBAM from the European Commission in June have galvanized discussions and raised interest around the world. So far, California is the only jurisdiction where this tool is used for electricity imports.

EU process

After the 2019 announcement of the European Green Deal, consultations began to prepare the proposal for a carbon border adjustment mechanism (CBAM), to be included in the "Fit for 55" legislative package announced on 14 July 2021. As part of the official consultation process, the Inception Impact Assessment and the Public Consultations took place in 2020. Following this process, the European Commission finalized the Impact Assessment, which accompanied the proposal.

[1] ERCST CBAM for the EU – Policy Proposal published on April 22, 2021

The European Commission was initially considering four options for a CBAM design: 1) Import tax; 2) ETS extension; 3) Notional ETS with a separate pool of allowances; 4) Consumption tax (excise or VAT type). Finally, No. 3 was chosen as the preferred option. The proposed design elements are outlined in the following details. Now the process will include formulating the position of EU institutions – Member States in the EU Council and the European Parliament. The trilateral agreement should be reached by the 2023 and CBAM Regulation turned into law.

Design Element	Proposed design in the EU Commission proposal
Trade flow coverage	- Only imports to the EU are covered.
Free allocation	- The reduction of free allocations will be implemented gradually while CBAM is phased in. - The share of free permits for the sectors affected will still be 100 % in 2025 and will gradually decline by 10 percentage points each year to reach zero in 2035.
Geographical scope / exemptions	- Countries that are part of or linked to the EU ETS (currently Iceland, Liechtenstein, Norway and Switzerland) are exempted.
Sectoral/product scope:	- Five sectors are to be covered initially: cement, steel, electricity, aluminium, fertilizers. - Covered products within these sectors include both 'simple' goods (i.e. primary materials) and more 'complex' goods (i.e. semi-manufactured goods that use primary materials as inputs). - The European Commission can add products /sectors to the list through delegated acts.
Emissions scope	- Only direct emissions (Scope 1) are covered, including emissions attributed to covered goods and those embedded in input goods deemed to be within the system boundaries of the production process.
Level of adjustment (CO_2 price):	- The level of adjustment will mirror the average auction price of EU ETS allowances each week. - Crediting of policies in the country of origin will only recognize explicit carbon pricing policies (e.g. a carbon tax or ETS), with prices paid deducted from CBAM.
Use of revenues	- The CBAM will not generate revenue in the transitional period from 2023 to 2025. - Revenue generated as of 2026 will be collected nationally by competent authorities, and the intent is that most of it will accrue to the EU budget. - No mention of earmarking of revenues for specific purposes (e.g. for climate purposes domestically or abroad).
Implementation timeline	- 2023-2025: transitional CBAM entailing no financial adjustments - 2026: Full implementation of the CBAM

In the spring European Parliament used its prerogative to build its own non-binding position through the Own Initiative Towards a WTO-compatible EU Carbon border adjustment mechanism. The Plenary vote took place at the beginning of March and provided some indication on where the EP stands on the CBAM, before the EC put forward its proposal and formal negotiations start among the European Commission, Parliament and Council in the second half of 2021.

The heated debate during the European Parliament's plenary on March 8th resulted in a compromise. The resolution included the removal of a reference to CBAM as an alternative to current carbon leakage measures and avoids calling for the gradual phase-out of free allowances. The Parliament's resolution still underlines the absence of a double protection for the EU industry, which can be interpreted as the coexistence and not the overlap between free allocation and CBAM. October 13, 2021 the European Parliament drafted the **resolution for the COP 26 in Glasgow**, recommending a **club** that would offer a potential exemption from the proposed CBAM, an EU tariff on carbon-intensive imports proposed to be phased in over 2026-36 for power, steel, aluminum, refineries, cement, and chemicals.

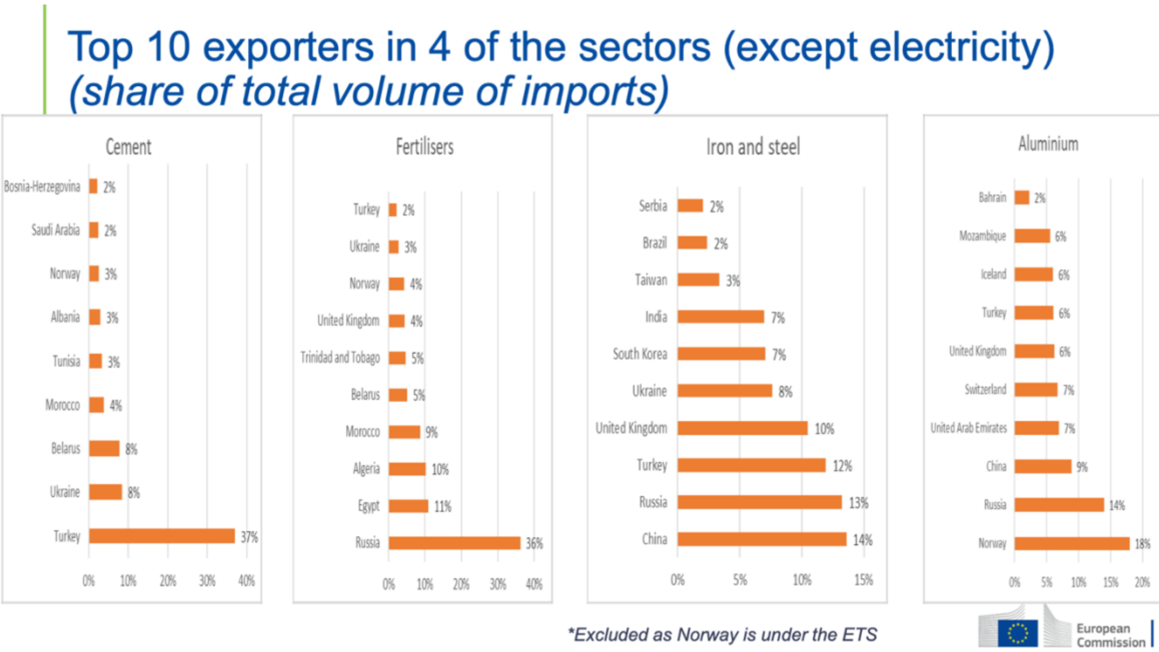
On 23 March 2021, several European countries, including France, Austria, Czechia, Denmark, Lithuania, Luxembourg, Slovakia, Spain and the Netherlands called for an effective, legitimate and fair mechanism for a BCA[2]. **Member States** solidify their initial positions towards the start of the formal negotiations after the publication of the European Commission proposals. In June the Netherlands, in addition to carbon prices agreed domestically, push for the introduction of an EU Carbon Border Adjustment Mechanism alongside the termination of free carbon allowances to industry.

[2] https://www.politico.eu/article/europe-climate-change-carbon-leakage/

Angela Merkel's government said it could launch its scheme for carbon contracts for difference (CCfDs) this year to spur decarbonisation of its heavy industry. The BMU said that it intends to award 10-year contracts for the pilot phase, financed by the national Energy and Climate Fund. 25 August, Germany's government presented a position paper on creating a global Carbon Club of climate ambition countries. The new position – developed by the Ministries of Finance, Economy, Environment, Development Cooperation and the Foreign Office – shall guide DE's 2022 G7 presidency preparation, further talks with EU partners and aims at intensified talks with global partners.[3] SPD winning in Germany, and forming a coalition makes the idea of the climate club with BCA's gaining traction.

Portugal's Environment Minister Joao Pedro Matos told that the nation already has around €10 billion of private investment lined up for eight hydrogen projects and will start the production of the green fuel by the end of next year. In the **Netherlands**, the €5 billion SDE++ program to stimulate sustainable energy production also aims to pay a 'strike price' for green hydrogen output and carbon capture and storage (CCS) deployment. Similarly, the **UK** government has also shown interest in supporting CCUs investments through CCfDs, tied to its post-Brexit ETS launched on Jan. 1 and forming part of its £800 mln CCUS Infrastructure Fund. While **Poland** suggests the carbon border levy should start with steel, cement and fertilisers, said Adam Guibourgé-Czetwertyński on April 29.

The **Commission's leadership** continues to stress the fact that CBAM would remain obsolete in the case that the other economies would follow the Paris Agreement. EU's Climate Commissioner Timmermans stated, "the EU would have "no hesitation" in using a carbon border adjustment mechanism to protect its industries if the bloc's trading partners put companies in the region at a disadvantage over climate targets". **Brussels** said that the mechanism will be designed to target imports "surgically", and it is expected to be applied initially to certain goods from neighbouring countries in Eastern Europe, Turkey and North Africa.



[3] Position paper 25 August, 2021

The (**G7**) seven nations – the US, UK, Canada, France, Germany, Italy, and Japan – in Cornwall 14 June, pledged cooperation on carbon pricing and carbon leakage, reaffirmed climate finance pledges for poorer nations, and vowed to end new government support for coal power by year-end.[4]

Joe Biden met EU leaders Ursula von der Leyen and Charles Michel on June 15, where among other things they discussed to closely coordinate to promote robust climate measures, address carbon leakage risk, and cooperate on sustainable finance, including by providing the private sector with usable tools and metrics. U. von der Leyen explained the logic of EU carbon border adjustment mechanism (CBAM). Brussels and Washington have outlined plans for a transatlantic alliance to develop green technologies and said they will coordinate diplomatic efforts to convince other big emitters to cut CO2 faster.

Australia

Canberra, which has refused to commit to a net-zero emissions target by 2050, is concerned that the measures could hit Australian exporters. The Trade Minister Dan Tehan is trying to lobby his counterparts to drop plans for a CBAM. It was repeated end of June in the Competitiveness Summit.[5]

The EU's proposed carbon border adjustment mechanism (CBAM) will only have marginal impacts on Australian exports, and could even boost the country's competitiveness in Europe in the near term, the Australian industry (Ai) Group said in the Report.[6]

That's partly because the EU CBAM, as proposed, would only affect 0.25% of Australia's trade with Europe, and while the mechanism might expand over time, similar initiatives by the US, Japan, or others would hit Australia harder.

In 2022 Australia wants to start with a scheme that will award carbon units to industrial facilities under the Safeguard Mechanism that reduce their emissions intensity.[7]

Belarus

Belarus is drafting a plan to shield itself from the effects of the EU's planned carbon border adjustment mechanism (CBAM), a government official said 18 May, according to national media reports. Country which has sizeable cement, lime, and oil refining industries, becomes another EU neighbour to have taken action to mitigate the effects of the 27-nation bloc's planned border measure for their economies.[8]

[4] https://www.g7uk.org/
[5] https://www.politico.eu/article/cbam-detrimental-to-growth-australian-trade-minister-says/
[6] https://www.aigroup.com.au/news/media-centre/2021/carbon-tariffs-have-unexpected-implications-for-australia-new-research-finds/
[7] https://www.industry.gov.au/regulations-and-standards/national-greenhouse-and-energy-reporting-scheme/safeguard-mechanism
[8] Natalya Inchina, a senior official at the Belarusian environmental protection ministry, according to news agency BelTA.

BRIC

Brazil, South Africa, India and China say EU plans for a carbon levy on imported products like steel and cement will unfairly penalise their economies.[9] At UNFCCC COP26 climate summit, India and other developing nations will oppose plans by the EU and US to penalise imports of carbon-intensive goods via a CBAM to curb emissions.

On August 27, 2021 BRIC countries issued the [10]New Delhi Statement on Environment from the 7th Meeting of BRICS Environment Ministers.

Interpretation from the CBAM Sectoral Analysis report by the European Roundtable on Climate Change and Sustainable Transition singled out that the industries beyond the EU sectors that will be most affected by the EU proposal include Colombia's cement industry, China's plastics sector, North African fertiliser and South American pulp exports.

Canada: federal level

The Canadian provinces of Saskatchewan, Ontario, and Alberta went to court to argue that the Greenhouse Gas Pollution Pricing Act was unconstitutional because Ottawa was stepping into provincial jurisdiction. Appeals from the courts of Saskatchewan and Ontario in 2019 determined that the policy was constitutional, while in February 2020 the Alberta Court of Appeal said it was not. The cases were all appealed to the Supreme Court, which ruled on March 25, the carbon price being a federal prerogative, against that the energy issues reserved traditionally to the provinces.

Updated Paris Agreement NDC confirmed Prime Minister Justin Trudeau's administration will update the national price by C$15/tonne annually over 2023-30 up to C$170 in 2030. On the grounds of climate diplomacy, it must also be recalled that in the past Canada has cohosted MoCAs[11] together with the EU and China, in the absence of US engagement.

Canada is exploring the potential of a border carbon adjustment and has committed to discussing this idea with international partners[12]. This type of adjustment is intended to prevent carbon leakage. The **policy instrument** would presumably be the output-based pricing system (OBPS), a regime established under the Greenhous Gas Pollution Pricing Act[13]. Enabling Climate Ambition Report[14] from International Institute for Sustainable Development and Clean Prosperity describes how to harmonize the approach of Canada and trading partners. The consultations were launched in August 2021.[15]

[9] https://www.climatechangenews.com/2021/04/09/emerging-economies-share-grave-concern-eu-plans-carbon-border-tax/
[10] https://static.pib.gov.in/WriteReadData/specificdocs/documents/2021/aug/doc202182731.pdf
[11] https://ec.europa.eu/clima/events/ministerial-climate-action_en
[12] Statement (roadmap)
[13] strengthened climate plan
[14] https://cleanprosperity.ca/wp-content/uploads/2021/07/enabling-climate-ambition.pdf?utm_source=CP+Daily&utm_campaign=6a7ec93428-CPdaily13072021&utm_medium=email&utm_term=0_a9d8834f72-6a7ec93428-110313390
[15] https://www.canada.ca/en/department-finance/programs/consultations/2021/border-carbon-adjustments.html

Canada: provinces and territories

Although there are regional carbon markets linkages on a subnational level (California/Quebec), establishing a border adjustment is a federal competency. Provincial regulations are supported by local statutes and autonomies. The Government of **British Columbia** introduced a carbon tax in 2008. **Quebec** participates in an international emissions trading scheme with the US state of California. **Alberta** announced a carbon tax in 2015. **Ontario** joined the Western Climate Initiative in 2017 but later withdrew. The **New Brunswick** Progressive Conservative government on May 11, said it will reduce personal income taxes to blunt the impact of the Canadian province's abbreviated C$40/tonne carbon levy on fossil fuels, resurrecting an idea put forth by the federal Liberal Party over a decade ago. The Canadian government opposed **Saskatchewan's** carbon tax proposal as it outlined more stringent benchmark criteria for provinces under the federal 'backstop' CO2 pricing regime.

A key issue for Canada is how to move forward with any BCA or similar instrument, given Canada's intense and complex trading relationship with the United States. The US do not have a carbon price, so it is not clear either how they might protect their EITE firms in the context of high climate ambition, or how Canada might coordinate with whichever policies the US do put in place.

With the support of the WTO Secretariat, Canada has recently organized a webinar on border carbon adjustments for WTO negotiators including a significant number of other stakeholders, and which attracted significant interest[16].

China

China remains cautious towards the EU CBAM, especially because of trade issues. China's NDC and climate policy is based on the announcement of carbon neutrality by 2060 and putting the power sector under an emissions trading scheme. China government agencies back Beijing as carbon offset market hub. Eight major government agencies and institutions have encouraged Beijing to set up an offset trading platform in its pilot free trade zone to act as the centre for the Chinese carbon credit market.

The impact of the EU CBAM on EU–China relations will depend largely on how it is designed and negotiated. This will also depend on making any EU CBAM WTO compliant. Using revenues and allowing for crediting of existing policies will be important considerations in these discussions.
Chinese President Xi Jinping slammed the EU's plan for a CBAM in a call with the leaders of France and Germany, "tackling climate change is a shared responsibility … and should not become a geopolitical bargaining chip or used to attack other countries (or impose) trade barriers," Xi told France's Emmanuel Macron and Germany's Angela Merkel on the sidelines of a virtual climate summit on April 16, 2021.

On the ETS, China's environment ministry has asked the cement industry's main association to prepare the sector's entry into the national emissions trading scheme, which could happen as soon as next year. China is looking to bring steel and one more sector into its national emissions trading scheme from next year, according to the chairman of the carbon exchange in Shanghai.

[16] https://twitter.com/CarolynDeere/status/1367381457602232320/photo/1

Extensive overview of Chinese carbon policies is available in the World Bank's State and Trends of Carbon Pricing 2021 p.65 [17]

Report by Bank Credit Suisse expects China to spend $15.5-20.1 tn on green infrastructure investments over the next three decades to meet its climate targets, but that failure to do so could have significant repercussions for the economy. Chinese steel and aluminium will be priced out of the European market when the EU's carbon border adjustment mechanism (CBAM) kicks in in 2026, unless the sectors decarbonise fast, according to an analyst report published on 28 of September.

Japan

Japan announced its target of carbon neutrality by 2050. This pledge should be fulfilled mostly through electrification and decarbonization, including negative emissions. However, on the carbon market this is still limited to the automotive sector through carbon offsets and the first mandatory ETS was established in the Tokyo Metropolitan area[18]. In the view of summer 2021, Japan is considering a carbon border tax that would impose tariffs on imports from countries with insufficient environmental standards. [19]
Japan is considering upping its ambition under the Paris Agreement to a 40% cut below 2013 levels by 2030, compared to the current goal of 26%, according to the Kyodo news agency.[20]

Kazakhstan

Kazakhstan is working on the introduction of a domestic carbon price on energy consumption to avoid full payment of the proposed carbon border adjustment in the EU, Minister of Energy Nurlan Nagaev said on August 31, 2021. The country is proactively working on development of a 2050 low-carbon development concept to be approved shortly, Nagaev said.

Morocco

Appropriate fiscal measures shall be enacted for protecting the environment, especially through the introduction of a carbon tax - Morocco wants to introduce a national levy on carbon emissions as part of a wider reform of the country's tax system[21]. This comes after Morocco submitted an updated NDC under the Paris Agreement, pledging to unconditionally cut emissions by 18.3% below BAU levels by 2030, taking into account AFOLU sectors (agriculture, forestry and land use).

New Zealand

The California's and New Zealand's experiences with carbon leakage policies are mentioned in the ICAP Report.22 For New Zealand it is a levy on imported goods based on their synthetic greenhouse gas content.

[17] https://openknowledge.worldbank.org/bitstream/handle/10986/35620/9781464817281.pdf?sequence=9&isAllowed=y
[18] https://icapcarbonaction.com/en/?option=com_etsmap&task=export&format=pdf&layout=list&systems[]=51
[19] https://www.nippon.com/en/news/yjj2021021400298/
[20] Japan considers raising Paris emissions reduction target to 40% -reports
[21] The legislation proposal (Bill 69- 19)
[22] https://icapcarbonaction.com/en/cal-and-nz-paper

Russian Federation

The 20th of April 2021, Russian lawmakers gave preliminary approval to the country's **first climate law** which aims to enable emissions trade and require large polluters to report their GHG output.

Ruslan Edelgeriev, Presidential envoy for climate change, during ERCST event on May 25, talked about the Sakhalin pilot emissions trading system, hoping to be recognized as the equivalent measure to the EU's projects. For Russia climate neutrality is possible under conditions of avoiding protective measures. For the emissions intensity he would prefer industrial installation level much more than the exporting country average or even the global / EU benchmark.[23] He expressed the belief in Paris Agreement and expressed not being interested to work outside its framework. At the same time, supporting voluntary markets and global solutions for emissions trading.

Petrochemicals company Sibur PJSC plans to offset some of its emissions by tapping the carbon-capture potential of Russia's massive forests from 2024. "From 2024, when Russia should adopt a methodology and verification of such projects, we hope to start using this option to offset our carbon footprint," said Maxim Remchukov, Sibur's head of sustainable development.

Artem Bulatov, deputy director of the Department of European Cooperation of the Russian Foreign Ministry, during a seminar of the Russian International Affairs Council on the prospects of cooperation between Russia and the EU in the environmental sphere. "We are ready for widest possible cooperation. All our offers are on the table. But we won't be knocking on locked doors. The ball is in EU's court," he said, according to Russian news agency TASS, taking particular issue with the EU's plan to implement a carbon border adjustment mechanism as part of its European Green Deal. "We would like to avoid implementing response measures. We believe that this is not a time for trade wars even under the current geopolitical conditions," he added.

Estimates of the potential impact of EU CBAM on Russia vary from $3 bln a year, according to the Russian natural resources ministry, to a KPMG forecast of about $60 bln between 2022 and 2030. The most hit industries are petrochemicals, energy, and aluminum.

UK – COP 26 and G7 presidencies

The UK is also preoccupied with how to address competitiveness and carbon leakage, considering that it is not part of the EU ETS anymore. It is currently assessing different options and identifying sectors vulnerable to leakage, while evaluating policy options and their implications. The impact for the EU and global economy are widely described in the CISL Report from October 2021.[24]
Carbon allowances in the new UK ETS are expected to trade around the £50 mark through next year, with a possible rise by 2023.

The UK will have an important and visible role in 2021 as Chair of G7 and president for COP 26 in Glasgow. Recent statements from Prime Minister Boris Johnson point to consideration being given to making this an item for discussion at the G7. Raising this at COP26 may be politically sensitive.

[23] https://carbon-pulse.us10.list-manage.com/track/click?u=98e16e4087837ec9f0445f260&id=74bf3ef77c&e=01ed772568
[24] https://www.cisl.cam.ac.uk/files/cbam_report.pdf

Ukraine

Ukraine is in a transition period towards establishing the ETS system and eventually linking it with the EU ETS. Ukraine may consider mechanism like EU CBAM[25] as a part of such transition. This could be supported by existing bilateral or regional arrangements – such as the EU Association Agreement – as grounds to merit an exemption. Firstly, countries in such relationships have close and deepening trade relationships with the EU. Secondly, as part of their agreements, those countries have typically committed to strengthen environmental and climate policies by adopting the EU's *acquis.*

Ukraine, a major steel producer, in March launched a working group to negotiate with the European Commission on the implementation and implications of the CBAM for the country – which has an association and free trade agreement with the EU. The working group aims at developing a strategy on how to best manage the impact that CBAM will have on the competitiveness of Ukraine's industrial sector. According to some estimates, CBAM might impact around one third of Ukraine's exports to the EU. Another study, which provides a preliminary assessment of the EU CBAM on the EU trading partners, found that Ukraine will be heavily impacted – with a per capital income reduction up to 0.4%, mainly due to the high carbon intensity of its steel and iron production.

Moreover, Kyiv intends to launch its own carbon market mirroring the EU ETS from 2025.

US overview

A White House announcements have put the climate policy at the center of the political agenda of the new Administration: a commitment to a decarbonized power sector by 2035, a net zero economy by 2050 and the organization of a climate summit in April were expected to give a legislative action boost on a federal level. That said, US climate envoy John Kerry warned the EU to wait until after the COP summit to move forward with the CBAM[26].

Joe Biden announced during his opening remarks for the two-day summit that the U.S. will reduce its own greenhouse gas emissions by 50%-52% from 2005 levels by the end of the decade. The U.S. is comparable, but less ambitious than the European Union's target of reducing its emissions 55% from 1990 levels by 2030, and it falls below a coming U.K. goal to achieve a 78% reduction by 2035 from 1990 levels. A 50% cut from 2005 emissions would amount to just a 40% cut for the U.S. when recalibrated to the same 1990 baseline.

The Leader's Summit on Climate on April 22-23, saw the participation of 40 global state leaders including China, Russia, EU, as well as leaders from the business environment and international institutions. This summit proved that climate change is a common trans-border issue which allows for dialogue and remains a central ground of communication beyond the differences that arise in the international diplomacy. President J. Biden virtually convenes world leaders on September 24th in the hopes of raising climate ambitions ahead of U.N. conference. The president will reconvene the Major Economies Forum on Energy and Climate (MEF).

[25] https://eba.com.ua/en/plata-za-klimatychnu-bajduzhist-chy-protektsionizm/
[26] https://carbon-pulse.us10.list-manage.com/track/click?u=98e16e4087837ec9f0445f260&id=e45b3fb931&e=01ed772568

The Biden Administration might consider a border carbon tax as part of its trade agenda[27]. As it was an integral part of the presidential campaign, it would follow the logic that expects domestic polluters to bear the full cost of their carbon emissions and would impose carbon border adjustment fees or quotas on carbon-intensive goods from countries that are failing to meet their climate and environmental obligations.[28]

What is less clear, however, is how a BCA could be calculated without a federal carbon price. A number of more detailed policies already exist or are under discussion at a State level. There's no specific proposal at the moment, but generally speaking, goods that are particularly carbon-intensive include cement, steel, aluminum and fertilizer.

The US FAIR Transition and Competition Act of 2021 introduced to the US Congress by Senator Chris Coons and Representative Scott Peters. Proposes introduction of a US BCA on initially aluminum, cement, iron, steel, natural gas, petroleum and coal from January 2024. Import fee based on the domestic environmental cost incurred by US producers under a portfolio of federal and state climate policies. There is no crediting foreseen, but exemptions of the LDCs and countries deemed to be at least as ambitious to the US level of effort.

California BCA for Electricity Imports

California's ETS contains a provision of "first deliverers" of electricity being liable for emissions of electricity imported from outside California (in the US). Where the carbon intensity of an electricity source is unspecified, it is assumed to be above the coverage threshold and subject to a default emissions factor.

This can create the challenge of resource shuffling – entities which lower their compliance obligation by substituting low-carbon electricity and swapping out related PPAs. This has been addressed by updating the regulatory framework, which now expressly forbids resource shuffling and sets out a detailed list of "safe harbor" practices. In a nutshell, these are changes to electricity offtake arrangements that are not considered resource shuffling.

New York

The Regional Greenhouse Gas Initiative (RGGI), covering 11 North-Eastern and Mid-Atlantic States, puts a regional cap on emissions from power generation. The program began in 2009 and the price of carbon in RGGI is around $6/ton. In **the State of New York**, the Independent Service Operator (NYISO) released its final draft of a Carbon Pricing Proposal to formally put a price to carbon dioxide emissions on the wholesale power market – and it contains a BCA provision. To avoid creating distortions, the NYISO proposes to apply carbon charges to external transactions so as to make them compete with internal resources (and each other) as if the NYISO was not applying a carbon charge to internal suppliers (i.e. on a status quo basis).[29]

[27] https://www.bloomberg.com/news/articles/2021-04-23/biden-exploring-border-adjustment-tax-to-fight-climate-change?sref=vdNmoUVL

[28] https://joebiden.com/climate-plan/

[29] NYISO Carbon Pricing Proposal

Republic of Korea

Bank of Korea Warns of Growth Hit from Potential Carbon Tax on September 16th. South Korea's potential adoption of a carbon tax will weigh significantly on its economic growth in the coming decades unless the country pushes hard on investment in the transition to green energy, the Bank of Korea said. A carbon tax, if implemented, will likely bring the economy's growth rate down by as much as 0.32 percentage point each year until 2050.

Serbia

Electricity would be the most impacted Serbian export to the EU[30]. Emissions intensity Serbia three times higher than the EU average. In 2020, power generation from lignite – which does not face the carbon costs borne by EU-based generators - increased by 4%. In the same period, coal and lignite generation fell by 22% in the EU.

As part of its process of accession to the EU, Serbia is committed to passing an Act and a strategy coherent with the objectives of the Paris Agreement which will cover all climate issues in line with the EU 2030 Framework for Climate and Energy Policies. Moreover, Serbia is also required to harmonize its environmental policy with the EU 2030 energy and climate framework.

On 18 March 2021, Serbia adopted its national Law on climate change, which provides for the creation of a system for reducing greenhouse gas emissions and ensure adaptation to changed climate conditions. The law delivers on Serbia's obligations under the Paris Agreement and aims at harmonizing domestic legislation with EU rules.

A national low carbon development strategy, together with an Action Plan, should be adopted within two years. Most importantly, the Climate law included a system to monitor, report, and verify (MRV) greenhouse gas emissions, marking a stepping stone for the introduction of a national ETS. The introduced MRV system mirrors that of the EU ETS and requires Serbia to start monitoring its emissions as of this year.

Turkey

The EU CBAM is likely to affect the competitiveness of some among Turkey's main industries, especially iron, steel and cement, as well as plastics and ceramics. Against this backdrop, the establishment of a national carbon pricing regime is increasingly seen as a risk mitigation tool, that could offset the impact of an EU CBAM. According to a recently published report by the Turkish Industry and Business Association, CBAM could generate additional cost of EUR 1.08 billion for Turkey's industrial sector. By mid-2021, the Ministry of Environment is expected to issue an Impact Assessment study on the impact of CBAM on the Turkish economy.

[30] https://erl.scholasticahq.com/article/21527-possible-implications-of-the-european-carbon-border-adjustment-mechanism-for-ukraine-and-other-eu-trading-partners?attachment_id=55478

The European Bank for Reconstruction and Development (EBRD) is working with Turkey to develop a domestic carbon market in order to prepare the country – one of the EU's largest trading partners – for the introduction of protective border measures by the neighbouring bloc.

WTO

WTO discussions on BCAs are still at a relatively initial stage. At this point, the EU is the only stakeholder with a working plan aiming to achieve a BCA – other WTO members are at a less advanced stage (e.g. Canada is only starting to explore how/whether a BCA could be designed).

The Council for Trade in Goods required further details on how a BCA would be implemented and the assurance that it will not be used as disguised barriers to trade. The EU presented the Green Deal at the Committee on Trade and Environment and received questions on the design and implementation of the BCA[31].

On 12th and 16th November 2020, at a meeting of the WTO Committee on Market Access, WTO members raised a number of trade concerns, including the EU's planned CBAM. During this meeting, members were concerned about the consistency of a future CBAM with WTO rules and requested the EU to shed light on the status of the relevant legislation, as well as the sectors and products affected. Several members pointed out this measure needs to be designed and implemented fairly, recognizing carbon pricing systems already in place in other countries (including at the sub-national level) and recalled the Paris Agreement's principle of "common but differentiated responsibilities."

Similarly, some members criticized the EU's intention to use the CBAM as a new source of EU own revenue. Not aiming at climate protection, this would set economic and fiscal objectives.

In March 2021, the WTO convened the inaugural meeting of a new "Trade and Environmental Sustainability" joint initiative group, which is expected to be a forum to discuss carbon border taxes. Over 50 WTO member countries have already expressed their interest in participating to identify goals and objectives related to trade and sustainable development through "structured discussions ... on actions and deliverables" in this area.

French Finance Minister Bruno Le Maire and WTO's new leader Ngozi Okonjo-Iweala told during a press conference in Geneva that they would set up a working group to examine the proposed CBAM. The plan, which is still in the early planning phases, would be aimed at shielding EU companies against cheaper imports from countries with weaker climate policies. Le Maire said the working group being set up between the WTO and a number of European countries would mull "how to ensure that this mechanism conforms with WTO rules and how to guarantee a fair transition for developing countries." France, which takes over the EU's rotating presidency next January, was intenting on ensuring that the new mechanism "respects WTO rules".

[31] https://www.wto.org/english/news_e/news20_e/envir_20nov20_e.htm

"Principles and Best Practice in Border Carbon Adjustment: A modest proposal" brief by A. Cosbey offers a preview of Trade and Sustainability Review, which will feature commentary and analysis on the WTO's Twelfth Ministerial Conference.[32]

G20

During G20 Summit in July under the Italian Presidency, finance ministers have collectively endorsed carbon pricing for the first time, describing the idea as one of a wide set of tools to tackle climate change. The issue of taxing carbon dioxide emissions has long divided G20 members, with the US in particular historically opposed.

OECD

The incoming secretary-general of the OECD, in an interview with the Financial Times, Mathias Cormann[33] added that the same internationalist principles should make the EU think twice before introducing unilateral tariffs to punish countries that take a different approach to global warming.
Export issues, political acceptability, equivalence of measures and calculation of its value – are central to the discussion in the OECD Round Table on Sustainable Development [34]

IMF

IMF also appears on the map of key fora where carbon border adjustments can be discussed. At the moment the global climate price floor would be seen as a solution looking for the global carbon price.[35]
The Rationale for Border Carbon Adjustments was published explaining its impact on the carbon pricing in different jurisdictions. (IMF STAFF CLIMATE NOTE 2021/004)[36]

IPCC

The EU cannot neglect the projected growth in emissions from least-developed countries (LDCs) when designing its carbon border adjustment mechanism (CBAM), an IPCC senior advisor said on March 23[37].

World Bank

The World Bank has launched a study on the implications of an EU carbon border adjustment mechanism (CBAM) for European nations outside the bloc and Central Asian countries.
The project aims to understand the CBAM's consequences on these countries and to identify opportunities for these nations to take policy action and "start a conversation on decarbonisation,"

[32] https://www.iisd.org/system/files/2021-09/border-carbon-adjustment-modest-proposal.pdf
[33] https://www.ft.com/content/870bca64-8b75-45d3-8ca7-840cb0a7d652
[34] Ensuring the Acceptability of Border Carbon Adjustments, 25 March 2021
[35] High-level conference - Carbon Border Adjustments for Climate, Paris March 23, 2021
[36] https://www.imf.org/-/media/Files/Publications/Staff-Climate-Notes/2021/English/CLNEA2021004.ashx
[37] EU carbon border levy "can't neglect least-developed countries", says IPCC advisor

said Daniel Besley, a senior climate change specialist at the World Bank, at an event organised by Brussels-based think-tank ERCST.

The EU's European neighbours and Central Asian nations are heavily exposed to trade with the 27-nation bloc and are in many cases considerably more carbon intensive, Besley added.

The project will study the implications of the CBAM on the region in terms of projected impacts on GDP, employment, and emissions.

UNFCCC

On the sidelines of the July ministerial EU CBAM was mentioned in the context of the response measures. Discussion can potentially continue at the COP in Glasgow after EU formally proposed the CBAM measure in the European Green Deal Fit for 55 package.

UN Conference on Trade and Development (UNCTAD)

Report[38] published immediately after the EU proposal on July 14. The EU mechanism could help avoid "carbon leakage", but its impact on climate change would be limited – only a 0.1% drop in global CO2 emissions – with higher trade costs for developing countries.

EU CBAM could change trade patterns in favour of countries where production is relatively carbon efficient but do little to mitigate climate change, UNCTAD has warned.

[38] https://unctad.org/system/files/official-document/osginf2021d2_en.pdf