Border carbon adjustments: pivotal design elements and potential for international cooperation

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6 September 2023
Climate change and trade policy

Carbon leakage: external dimension of industrial decarbonization

Gradually increasing climate ambition: over 70 carbon tax or emissions trading systems in place at national or sub-national level (World Bank, 2023)

Growing concern of “carbon leakage”: climate policy in enacting jurisdiction drives emissions elsewhere, markets are lost to foreign producers that are not paying similar price.

Global carbon pricing would be the perfect solution - but is not realistic at this point.

Adjustment: BCA is another side of domestic carbon pricing, already introduced in the EU but considered or publicly discussed in:

• Canada
• United Kingdom
• United States
• Australia
• Chinese Taipei
• …
BCA choices for policy-makers

Between climate goals and protectionism
BCA design features

Each BCA is unique: decision tree of crucial choices

- Coverage of trade flows
- Geographic scope and exemptions
- Emissions scope
- Calculating embedded emissions
- Crediting for foreign policies
- Use of revenues
BCA design features

Other important considerations

• Domestic challenges to implement
• Trading partners’ capacity to comply
• Transition period and reviews
• Impact to existing trade flows and preferences
• Global context and international cooperation
Climate change, trade policy and development

External dimension of domestic climate policies

A challenge of fitting the principles of:
  climate,
  international trade,
  and development

into one instrument.

As interpreted by 164 governments.
BCA: some priorities for international cooperation

Life in a spaghetti bowl of BCAs

- Standards for calculating embedded emissions
- Geographical scope of coverage
- Crediting for foreign policies
- Use of revenues

Each topic might find a different forum: true challenge is bringing them together
Two new IISD policy briefs
Thank you!

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