

# International cooperation to limit the use of border adjustment

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Based on workshop that was part of leakage project, convened  
for Climate strategies in Geneva, September 2008

# Outline

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- Objectives of border adjustment
- Options for national implementation
- Options for international cooperation

# Possible objectives of BA

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( Provide incentives for other countries to pursue more ambitious climate policy )

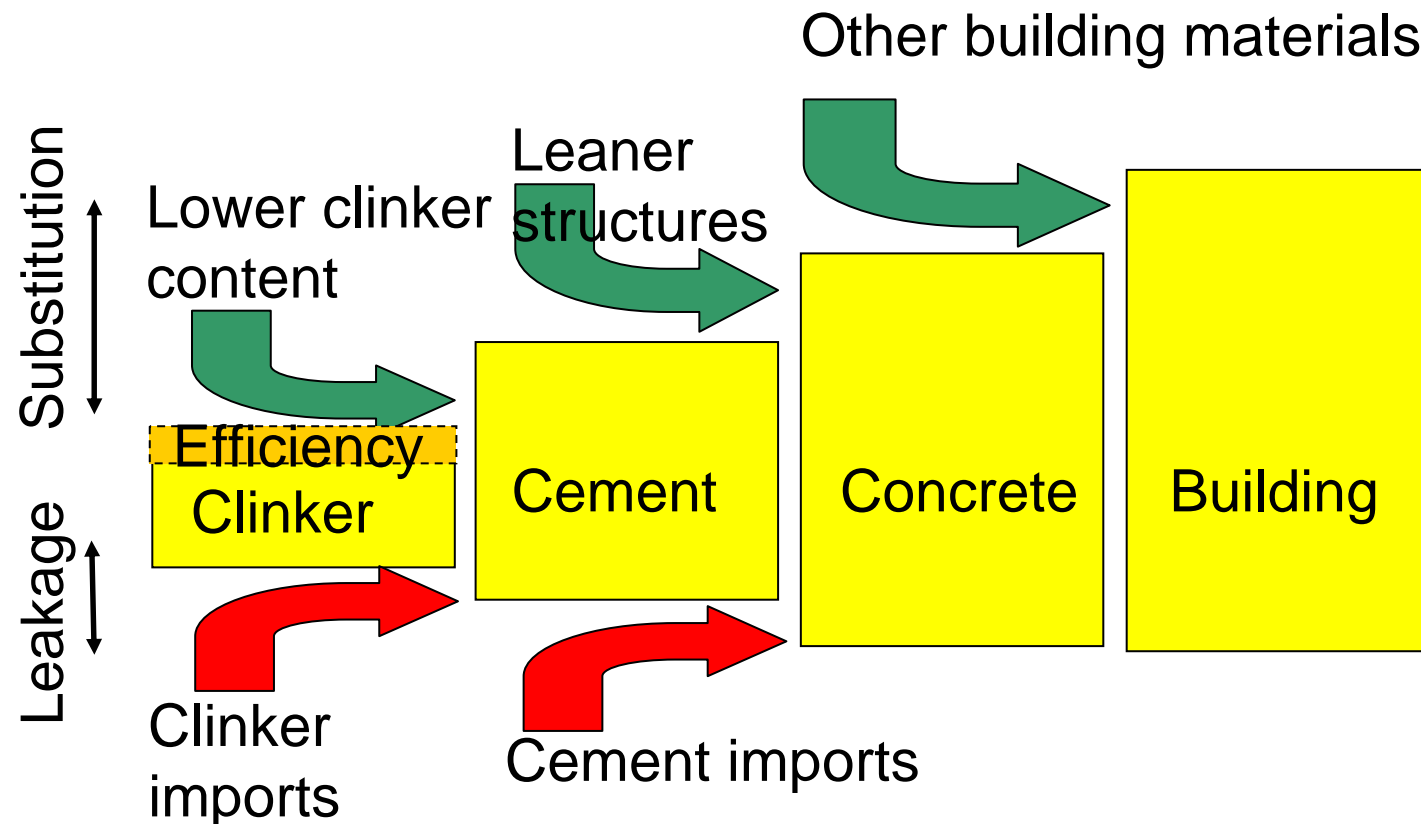
( Provide incentives for producers in countries not covered by carbon pricing )

- Provide assurance to voters about competitiveness concerns

- Avoid relocation of production of carbon intensive commodities

- Facilitate a move from free allowance allocation to auctioning

- A carbon price works through the value chain.
- This can be supported by policies that address leakage



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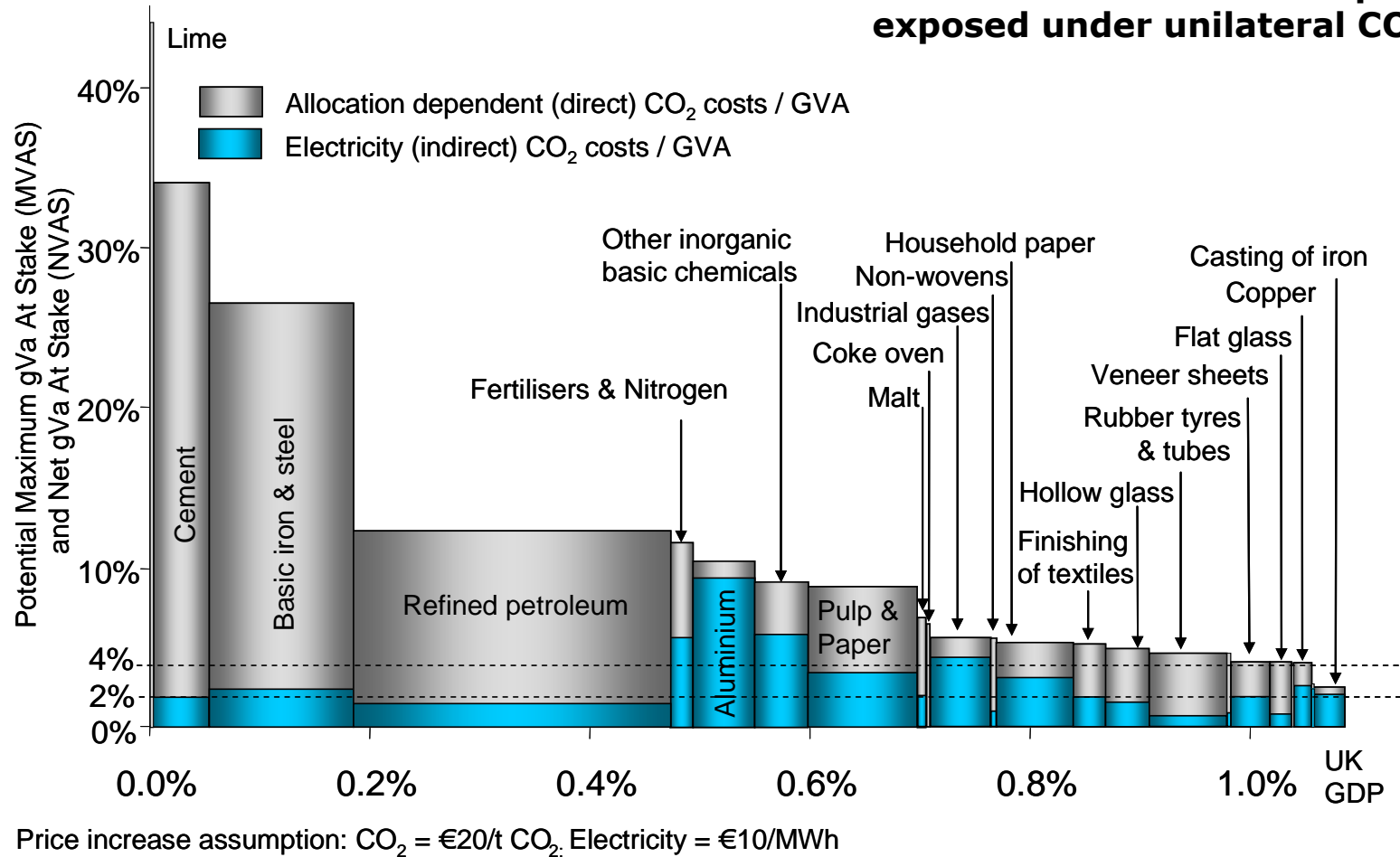
# Design options

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1. Which commodities are covered?

# Potential impacts of the EU ETS on leakage are focused on a few sub-sectors

## CO2 cost screen: Sectors potentially exposed under unilateral CO2 pricing

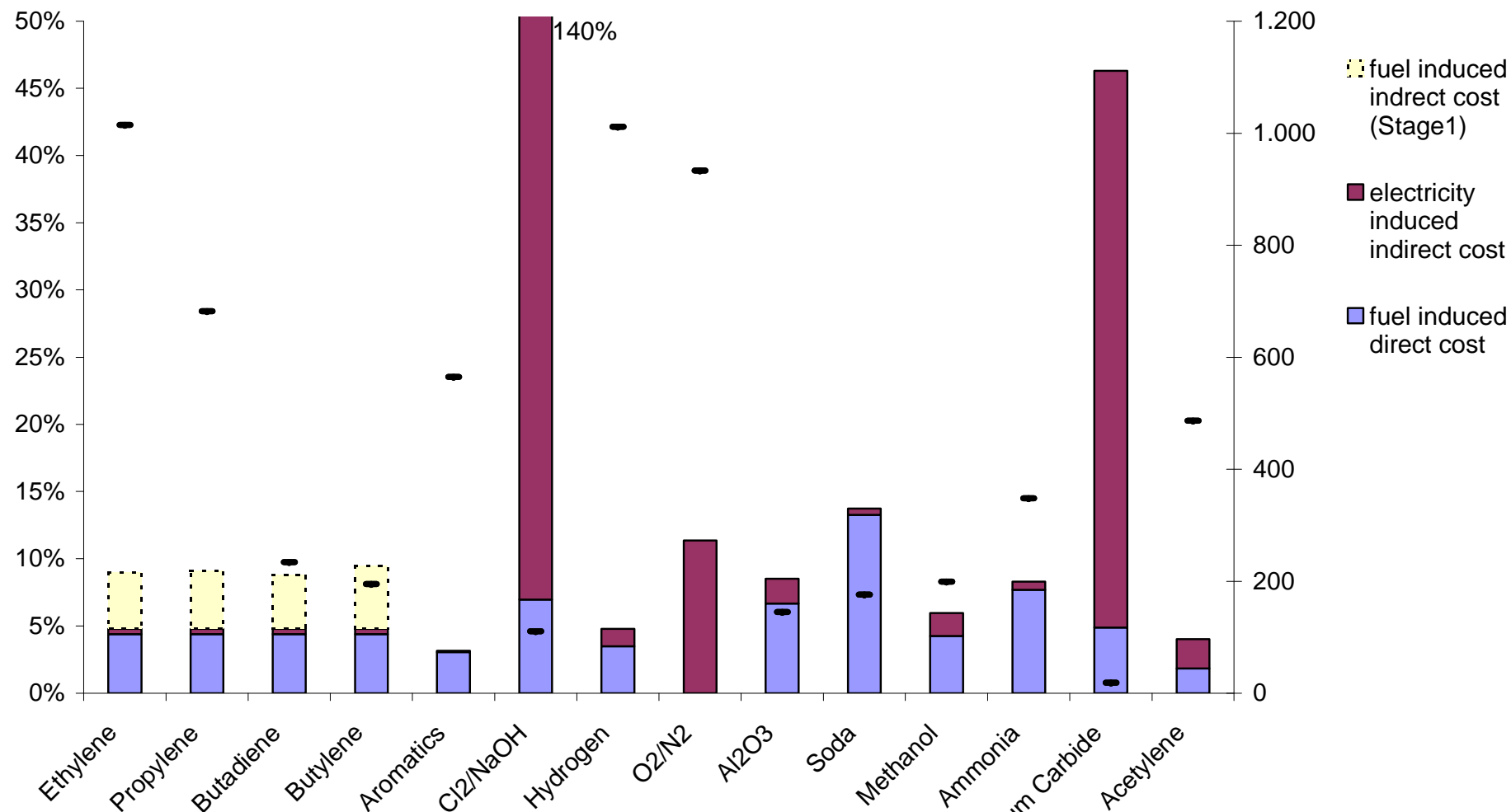


Hourcade Demaily, Neuhoff and Sato Differentiation and dynamics of EU ETS industrial competitiveness impacts. Embargoed until publication Nov 2007.

# Value at stake for major chemicals

Net Production Value at Stake

- Net Production Value (million Euros)



Neuhoff, 8



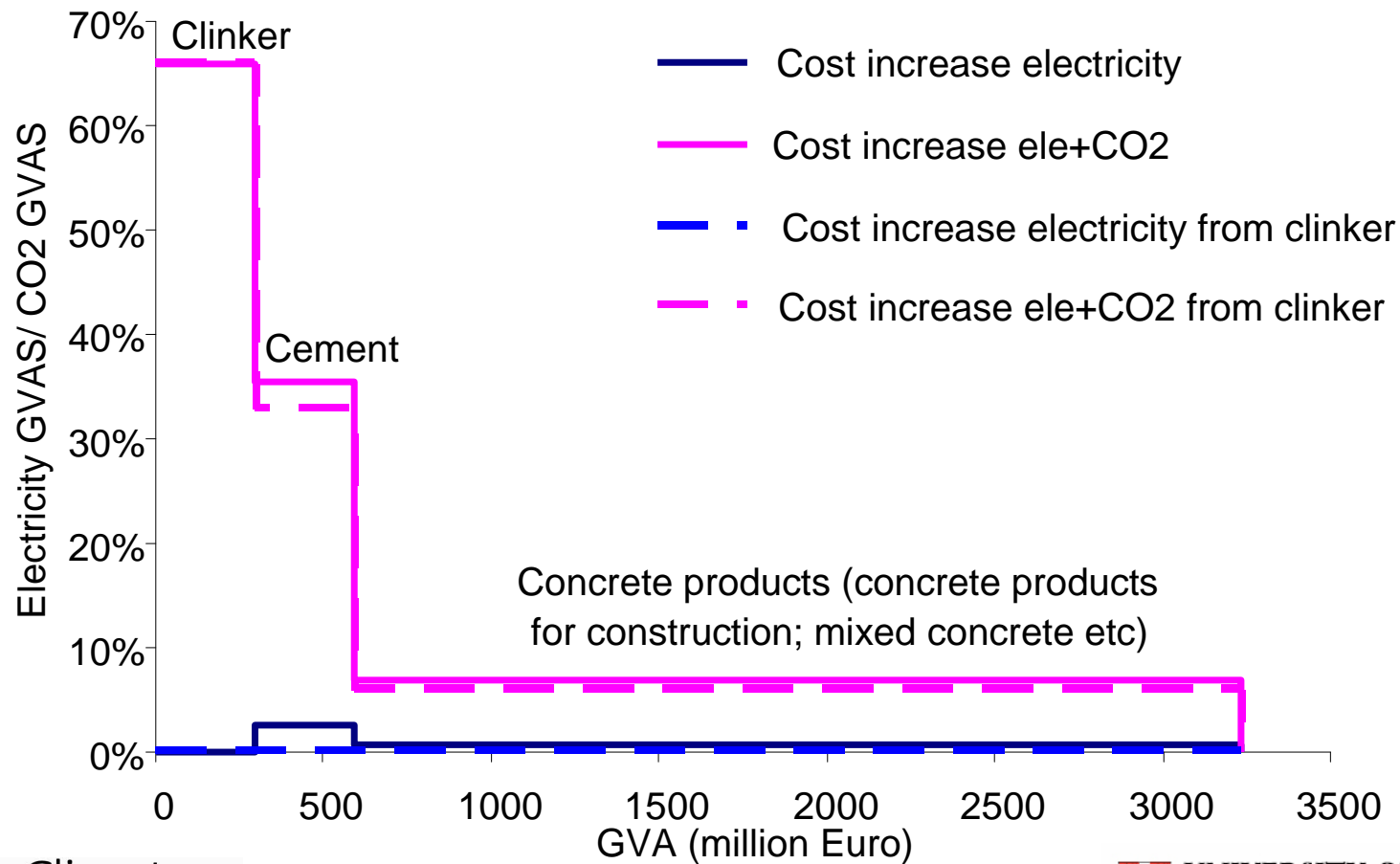
# Design options

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1. Which commodities are covered?
2. Which adjustment level?
  - Best available technology
  - Average carbon intensity
3. How far down the value chain?

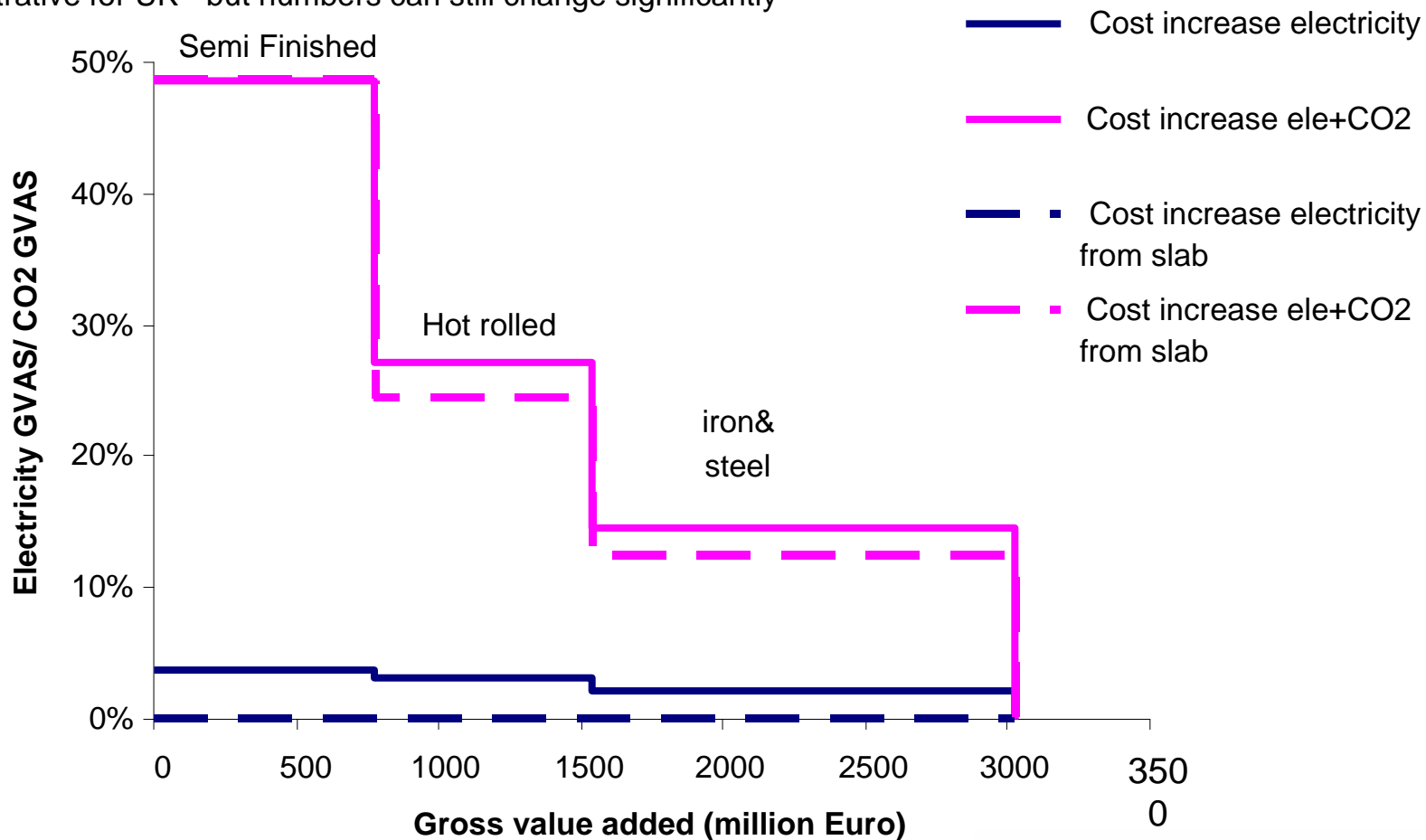
# Cement sector

Illustrative for UK - but numbers can still change significantly



# Steel sector

Illustrative for UK - but numbers can still change significantly



# Design options

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1. Which commodities are covered?
2. Which adjustment level?
  - Best available technology
  - Average carbon intensity
3. How far down the value chain?
4. Adjustment for weight or value?
5. How to treat recycled/coupled production?
6. Adjustment in financial terms or in allowances/international offsets?
7. Imports or imports and exports?
8. Adjustment for indirect cost increase?
9. Applied only to countries with comparable effort?
10. Procedure

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# Objective of international cooperation on limiting use of BA

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- create confidence among developing countries that a border adjustment is limited which discriminates against their producers will not be applied.
- facilitate the implementation of carbon taxes or emissions trading with full auctioning to expose producers and consumers to the full carbon cost and address leakage concerns for a narrow set of carbon intensive activities.
- reassure the trade community that measures which create complexities, non-tariff barriers, or otherwise undermines free trade will not be implemented.

# Design options

- |  | Limit | Harmonise |
|--|-------|-----------|
| 1. Which commodities are covered?  | x     |           |
| 2. Which adjustment level?   | x     | x         |
| – Best available technology  |       |           |
| – Average carbon intensity   |       |           |
| 3. How far down the value chain?   | x     | x         |
| 4. Adjustment for weight or value?                                       |       | x         |
| 5. How to treat recycled/coupled production?                             |       | x         |
| 6. Adjustment in financial terms or in allowances/international offsets? |       | x         |
| 7. Imports or imports and exports?                                       | x     |           |
| 8. Adjustment for indirect cost increase?                                | x     |           |
| 9. Applied only to countries with comparable effort?                     | x     |           |
| 10. Procedure  |       | x         |

# Requirements

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- Flexible framework
  - to complement different national policy designs (tax, trade)
  - Given changes in technology and regulatory framework



# How to reflect common but differentiated responsibility?

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- Exemption for LDCs (triangle trade, pollution havens)
- Net revenue from BA to fund adaptation/mitigation in developing countries
- BA as minor component of larger climate policy package that provides meaningful support for developing countries

# Institutional options for international cooperation

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- Formal coordination
  - international agreement, WTO or UNFCCC
  - ex-ante approval or ex-post dispute settlement process
- Informal coordination
  - agreed guidelines
  - increase WTO certainty & constrain use