

# Border Carbon Adjustments

BIEE seminar  
18th June 2013



## When do BCAs protect competitiveness better than freely allocated allowances?

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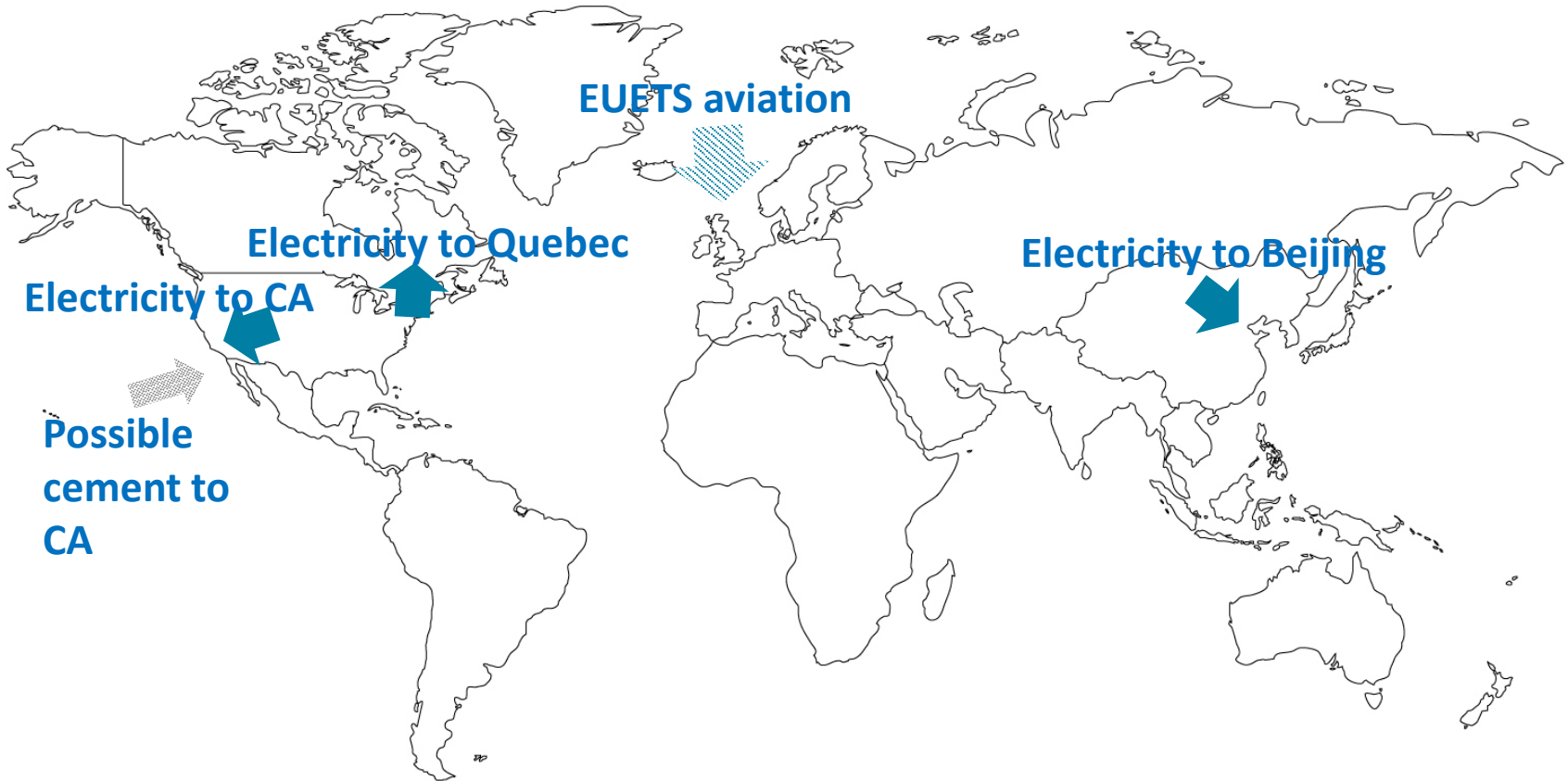
- Free allowances are inappropriate or ineffective?
- Setting prices to signal substitution?
- Revenue for the government?

## BCAs likely to apply only to energy intensive commodities

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- Not appropriate for most trade (services and manufactured goods)
  - Administrative complexity outweighs benefits - little difference to relative prices for most goods and services
  - GATT rules require environmental justification (Article 20 exemption)
- Emphasis on EITE mirrors current provision for emissions intensive industry with carbon pricing

# BCAs have been implemented mainly for electricity imports



## Administrative complexity unavoidable

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- Need to track third party certification of emissions *and* price paid (net of shielding)
- Trade off: accuracy of signal vs. cost of tracking
- Under GATT need to allow for individual producers' parameters
- Place of origin and trans-shipment
- Rules to prevent “resource shuffling”

## With political challenges

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- Numerous bilateral agreements
- Different coverage of sectors and gases – need to go through case by case
- Sub-national schemes difficult in current international trade frameworks.
- EUETS aviation

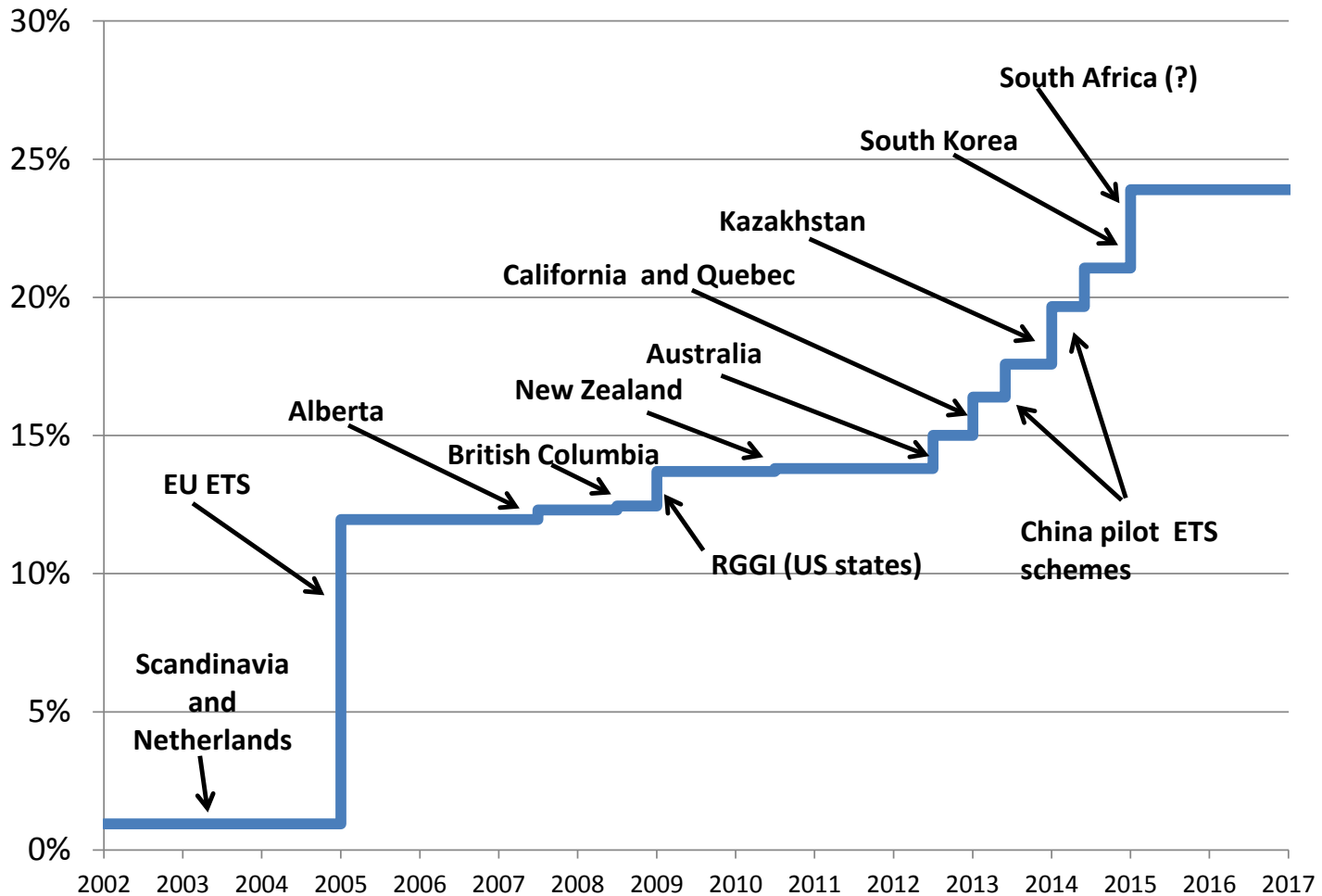
## And problematic incentives

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- Does not put incentive where control is
- Distorts trade (“resource shuffling”) – rules cannot prevent this internationally
- By-pass with semi-finished goods
- Differences in regulatory structures

# As carbon pricing spreads to ever more jurisdictions

**Carbon Pricing Coverage**  
(energy and industry CO<sub>2</sub> emissions of jurisdictions with carbon pricing as a % of global emissions)





## Conclusions

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- Scope of BCAs limited in practice
- Administrative complexity and political challenges
- Risks distorting incentives
- May be useful for electricity imports and (perhaps) some other cases

Thank you

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