

Towards a comprehensive and inclusive European Carbon Border Adjustment Mechanism

Topic: Input-Output Analysis: Trade and Global Value Chains Policies - IV

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The European Union (EU) will implement a Carbon Border Adjustment Mechanism (CBAM) to reach its climate mitigation targets while avoiding carbon leakage. Under an EU CBAM regime, emissions caused by goods imported to the EU would be taxed based on the emissions their production generated elsewhere in the world. The EU CBAM may also entail export rebates, deducting the carbon price from the goods exported from the EU. Beyond EU producers and consumers, an EU CBAM would impact industries and final users in third countries through their direct and indirect trade dependence on the EU. Such international spillover of the EU climate policy could encourage other countries to adopt more stringent climate policies or retaliate against the EU CBAM. While most previous research focuses on the potential effect of an EU CBAM on the main EU trade partners, little is known about the exposure of middle- and low-income countries: we attempt to solve this gap by providing an assessment of the potential impacts of the EU CBAM at high regional resolution and exploring policy options to make an EU CBAM inclusive toward the most vulnerable nations.

Using spatially-detailed Multi-Regional Input-Output (MRIO) data (EORA 26) and a novel throughflow-based accounting framework, we evaluate different implementation options for the EU CBAM, based on various products and scope coverages. We propose a new approach to explore how an EU CBAM would channel the EU carbon price to third countries and quantify which countries would be the most affected. We find that, despite having few responsibilities in the current climate crisis, some low- and middle-income countries dependent on the EU for their exports would be disproportionately pressured by an EU CBAM, as a large share of their domestic emissions would be covered by the EU carbon price. We finally propose avenues to implement an inclusive recycling of the fiscal revenue of the EU CBAM toward vulnerable countries. We show that such a recycling scheme could make an EU CBAM more acceptable for the EU trade partners and foster increased climate cooperation, but it would require balancing between conflicting interests.