

CARBON BORDER ADJUSTMENT MECHANISMS

- DRAWBACKS OUTWEIGH BENEFITS •

PROBLEM

Ambitious national **policies to reduce carbon emissions** may put domestic producers of carbon-intensive goods at a competitive disadvantage when trading with partners that have less stringent policies.

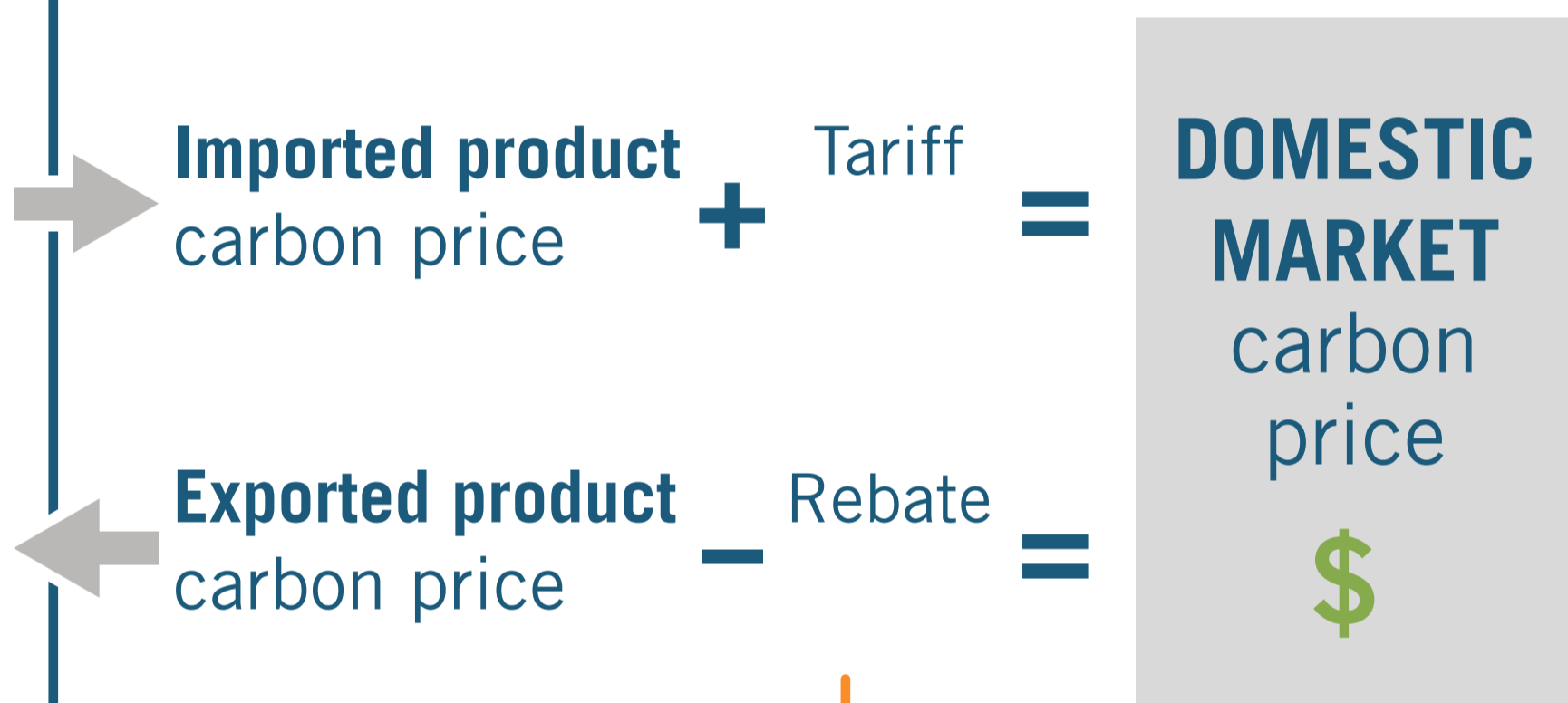
Carbon leakage, in which production shifts across borders to avoid carbon pricing or regulation, could undermine national climate ambitions.



POSSIBLE SOLUTIONS

CARBON BORDER ADJUSTMENT MECHANISM

A CBAM **adds a tariff** to imports equal to the carbon price domestic manufacturers face. An **export rebate** allows domestic manufacturers to be competitive in international markets.



CLIMATE INNOVATION CLUB

Nations with ambitious, transparent, and **enforceable climate targets** could join and would benefit from open international trade. Rules would be flexible to deal with each nation's unique legislative, regulatory, and market-based ways to address climate change.



CHALLENGES & DRAWBACKS

- **Counting and verifying carbon content:** Varies by production method, time, and place, making product verification difficult
- **Setting prices:** Difficult to accommodate non-pricing climate policies and to determine total CBAM costs
- **Risk of indirect carbon leakage:** Leads to import of finished products not covered by CBAM
- **Compatibility with WTO and climate agreements:** Likely a discriminatory tariff under WTO trade rules and violate existing climate agreements
- **Stymie climate innovation:** Unlikely to spur necessary innovation to deploy climate tech globally



ADVANTAGES

- Emphasizes the **importance of innovation** necessary to avert the worst consequences of climate change and allows for the flow of innovative technologies across borders
- Reduces international **trade friction**
- **Keeps out dirty producers** by applying a flat tariff
- Drives increasingly **ambitious climate targets** and spurs private and public investment in hard-to-abate sectors

