



Border Carbon Adjustments: Impact and Relevance for Developing Countries

Comments on Environmental Sub-Committee Paper
produced for the UN Tax Committee

5 November 2024

Outline of the UN Tax Committee Paper

Part A: Carbon Leakage and possible responses

Part B: How do Carbon Border Adjustments (CBAs) work

Part C: Possible Responses:

- **Potential Impact**
- **What could developing countries do**
- **Administrative consideration**

The UN Tax Committee Paper is not intended to support or oppose the theory of carbon leakage or any forms of addressing it. The paper is intended to be neutral and to provide information for developing countries

Factors to be considered in determining the impact

- **To what goods does the BCA apply?**
- **What is the level of exports of covered goods to the BCA area?**
- **Percentage those BCA goods make up of total exports and contribution to GDP?**
- **What is the carbon intensity of the goods?**
- **What is the carbon price in the BCA area?**
- **What is the potential BCA charge (carbon price X carbon intensity of the imports)?**
- **Does the exporting country have carbon pricing which will be creditable?**
- **What is the implied tariff (the ad valorem charge on the goods)?**
- **Impact on relative competitive advantages?**
- **What is the price elasticity of the goods?**
- **Given the above factors, what is likely impact on exports of the BCA goods and what will the impact be on the local GDP?**

Literature Reviewed

- 1. French Development Agency: “Impact of CBAM on EU trade partners: consequences for developing countries”**
- 2. Task Force on Climate Development and the IMF: “The Global Impact of a Carbon Border Adjustment Mechanism, A Quantitative Assessment**
- 3. The African Climate Foundation and London School of Economics, Firoz Lalji Institute for Africa: “Implications for African Countries of a Carbon Border Adjustment Mechanism in the EU”**
- 4. The Research Institute of Economy, Trade and Industry: “Effect of a European Carbon Border Adjustment Mechanism on the APAC Region: A structural gravity analysis”**
- 5. UNCTAD: “A European Carbon Border Adjustment Mechanism: Implications for Developing Countries”**
- 6. World Bank: Exposure Index**

Tentative conclusions from the literature

- 1. Developed countries not as affected as developing countries**
- 2. Generally, the most vulnerable countries are Least Developed Countries and Low Income Countries in Africa or developing countries neighbouring the EU**
- 3. If the CBAM charge is around €87 and applied only to the initial category of goods - iron and steel, aluminium, cement, fertilizer, electricity - the impact is moderate**
- 4. If other developed countries (US, UK, Japan, Canada) also introduced a BCA the impact would be significantly greater**

Potential actions for developing countries

- 1. Introduce explicit carbon pricing**
- 2. Convert existing implicit pricing into explicit pricing**
- 3. Apply a tax only on carbon intensive exports**
- 4. Redirect exports to countries without a BCA**
- 5. Promote international cooperation**
- 6. Leverage cleaner production technologies, potentially using the TRIPS Agreement**

Administrative considerations (specifically for EUCBAM)

- **Producers need to monitor and report emissions to importers**
- **Emissions need to be verified**
- **Verifiers need to be accredited**