

BCAs - Major Concerns for Developing Countries and Possible Responses

Platform for Collaboration on Tax
Ask-An-Expert Series #4

BCAs: Considering Climate and
Fiscal Implications for Developing
Countries

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Part of the Climate Toolbox to Stay

How can Governments and producers in exporting regions best respond to BCAs?

Where the WBG Can Help Out



- Give technical assistance to client countries
 - help to understand complex BCA methodology
 - assist on designing policy packages giving cost-effective fiscal incentives to reduce carbon emissions and promote inclusive growth
- Take part in global debate bringing forward concerns of developing countries => seek possible global alignment of BCAs

Basic Fiscal Implications of BCAs

from an exporting country perspective

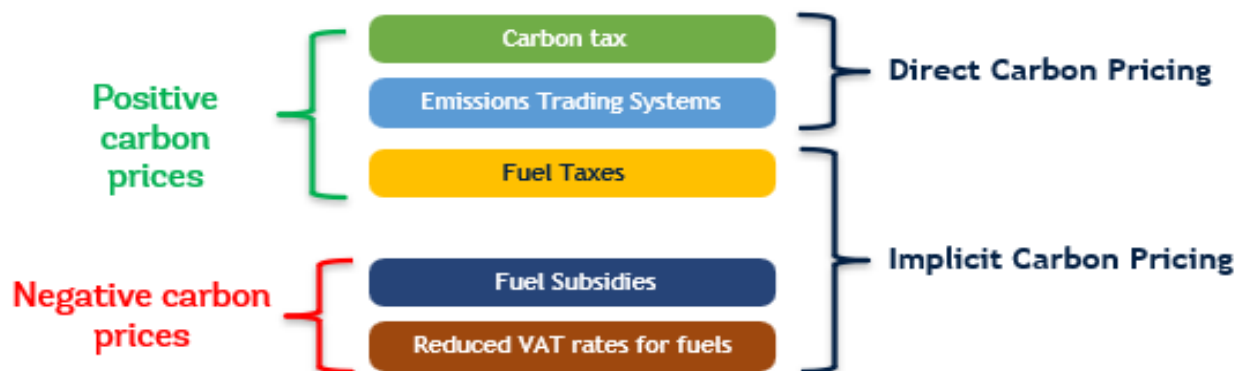
- **Avoid transfer of fiscal revenues** relating to carbon emissions to the BCA area?
- How can an exporting country make use of existing **domestic excise tax** administration?
- **Administrative burden** on producers
- Let's look more closely into these aspects!





Possible Fiscal Responses from Exporting Country Government

Types of Carbon Pricing



- The EU CBAM definition of ‘*carbon price paid in the exporting country*’ includes *carbon tax* and *emissions trading schemes* but not general excise fuel taxes, which are not calculated on carbon content of fuels
- An emissions trading scheme requires more complex administration than a carbon tax, taking longer time to put into force
- Many countries already have excise fuel taxes
- If administered upstream, at extraction or importation, excise fuel taxes are easy to administer at low cost.

How to Introduce a Carbon Tax

.... in response to BCAs



- Ensure that the scope of the carbon tax is in line with the definition used in the BCA legislation
 - if coal or natural gas is used to produce BCA goods, these fuels need to be in scope of the carbon tax in the exporting country.
 - use average carbon contents of fuels => calculate tax rates, expressed in legislation in normal trade units (litres, tonnes)
 - convert excise tax into a carbon tax or introduce a new carbon tax
- Consider appropriate level of carbon tax in the exporting country

A Carbon Tax can be Designed ...

...to create major co-benefits to society

- Helps creating a simpler and more growth-friendly tax system and increasing domestic resource mobilization
- By reducing fuel consumption, air pollution decreases => health benefits.
- Possible to tax the whole economy, including the informal sector, at low administrative cost, with few evasion opportunities reducing compliance costs and corruption opportunities.





Administrative Burden on Exporters

What are the challenges? How can they be resolved?

Role of Producers in Exporting Countries



- ‘*No extraterritorial jurisdiction*’ = no legal BCA obligations on the exporting country producers, but
- the BCA country importers are likely to need detailed data to fulfil their legal obligations
 - How this data on embedded carbon emissions is obtained is up to individual contracts between seller and buyer of CBAM goods

How Can Producers Respond?



- Transitioning to greener production methods to lower embedded emissions => reducing the embedded emissions subject to the BCA fiscal obligation
- Learn how to understand and manage BCA methodology to gather required data.
- Seek technical assistance available from BCA regions and international organizations



Future Developments?

Global Coordination of BCA Elements?



- Technical assistance and global cooperation to
 - align methodologies for measuring and verifying emissions
 - harmonizing a definition of carbon pricing mechanisms to be acknowledged by different BCA jurisdictions
- => help to reduce potentially adverse effects on global trade and collective efforts to address climate change

Thank you!



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