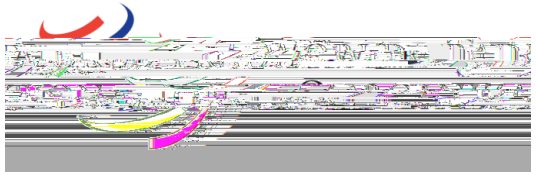


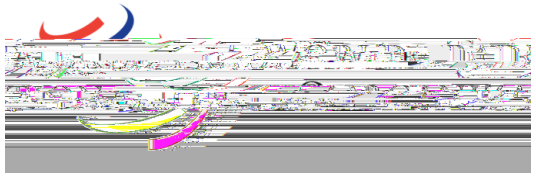
Trade-related implications of different

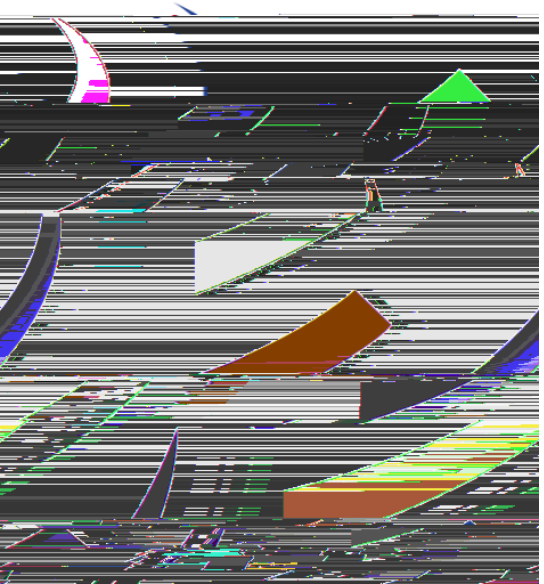
Overview of the presentation

1. The necessity, efficiency and urgency of global carbon pricing, considering CBDR
2. The economic advantages and disadvantages of BCA
3. International cooperation on carbon pricing

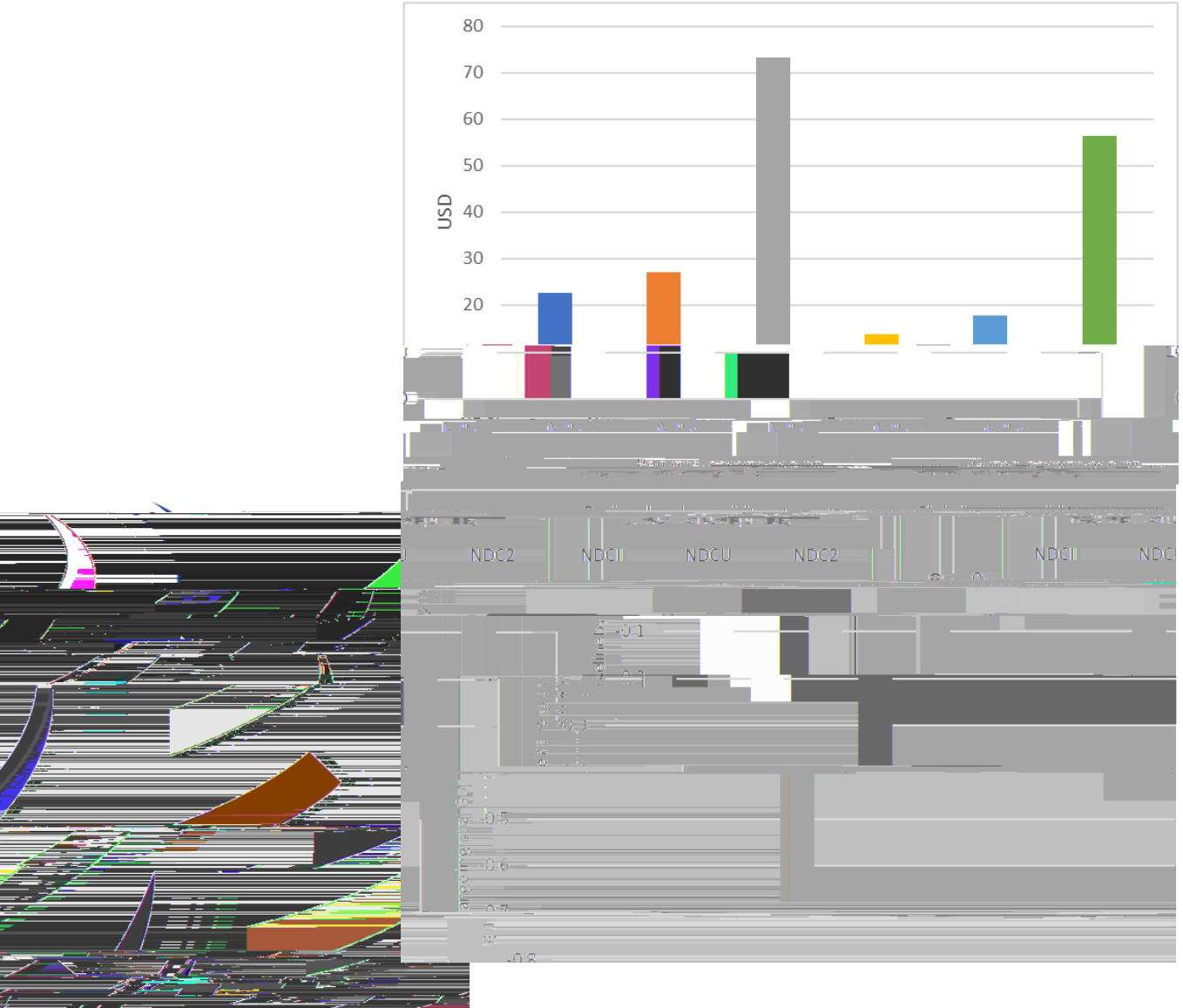
The necessity, efficiency and urgency of global carbon pricing, considering CBDR

Necessity of carbon pricing/climate change mitigation: NDC targets are insufficient to stay on 2





Efficiency: carbon price (upper panel) and GDP loss (bottom panel) are smaller with a uniform global carbon price

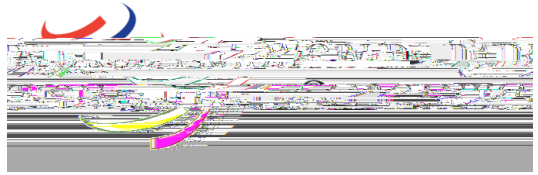


The average carbon price required to stay on the path of 2 C global warming is higher with carbon prices varying by region (75$) than with a uniform global carbon price (56.7$) and the global GDP loss is smaller with one global carbon price

- The reason for a smaller loss under one global carbon price is that more emission abatement would take place in regions with more scope for abatement

For equity reasons, to live up to the principle of common but differentiated responsibility (CBDR), it could be optimal to vary carbon prices by region: tradeoff between equity and efficiency

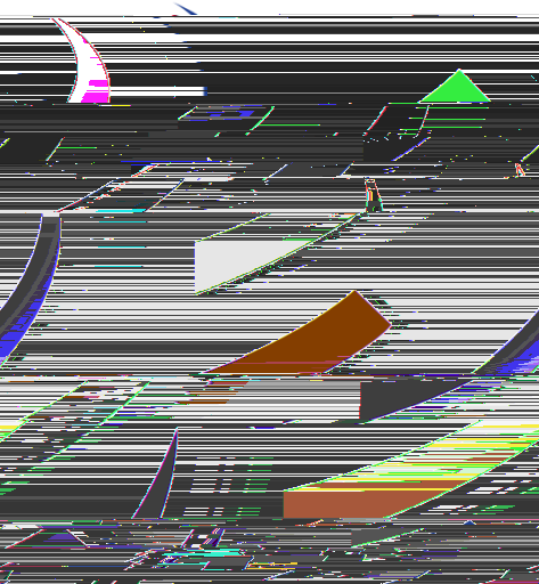
Urgency: carbon pricing in developed regions implies a loss of competitiveness in EITE sectors leading to potential calls for BCA



Simulations with the WTO Global Trade Model show that if seven hypothetical regions are assumed to set higher carbon prices than the rest of the world, they would face a reduction in output in emissions intensive trade exposed (EITE) sectors in 2030

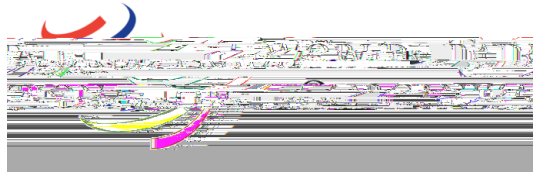
The losses are projected to be limited in most regions if these regions would introduce border carbon adjustment (BCA)

This shows the urgency of coordinating carbon pricing, since more



The economic advantages and disadvantages of BCA

Economic arguments favouring BCA



BCA can prevent carbon leakage

- Meta-analysis techniques show that there is a statistically significant difference in estimated carbon leakage with and without BCA (Branger and Quirion, 2014), although the question is how much BCA contributes to the reduction in global emissions

BCA can prevent a loss of competitiveness in EITE sectors.

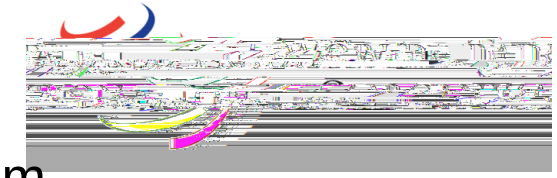
- This can be relevant for political economy in regions introducing ambitious carbon pricing policies

BCA mechanisms could encourage countries directly affected by the BCA to adopt more ambitious carbon pricing to avoid border measures.

- However, simulations suggest that the incentivizing effect of BCA is limited and could also lead to incentives for counter-measures

BCA could contribute to the decarbonization of value chains by helping firms to be more transparent with regard to the emissions embodied in the products they trade.

Economic arguments against BCA



BCA adversely affects the terms of trade of regions facing them.

BCA constitutes a levy on imports and would thus reduce the global demand for imported goods, thereby driving down prices of such goods and deteriorating the terms of trade of exporters facing BCA.

The projected negative terms-of-trade effects tend to be concentrated in countries exporting energy-intensive goods to countries that impose BCA mechanisms (Weitzel, Hübler and Peterson, 2012).

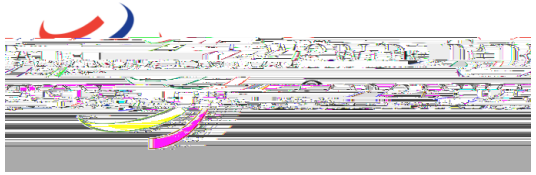
If BCA is introduced by more ambitious developed economies, adverse terms of trade effects would be concentrated in low-income regions, thus creating a potential tension with the principle of CBDR

BCA could involve considerable administrative costs for companies and governments and lead to regulatory heterogeneity.

BCA could potentially lead to trade conflicts between the regions imposing and facing such levies.

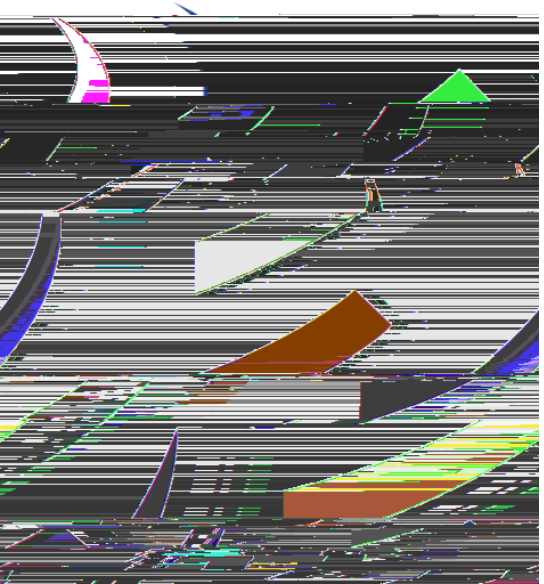
International cooperation on carbon pricing approaches

Context

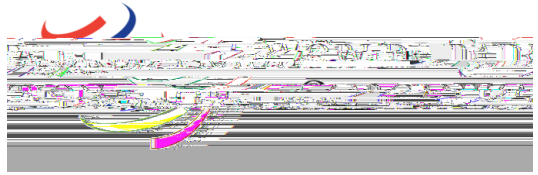


Two-thirds of all submitted NDCs under the Paris Agreement consider the use of carbon pricing to achieve their emission reduction targets.

It is thus likely that local, national and regional carbon pricing



Existing international cooperation



International cooperation on carbon pricing is slowly taking shape. For example:

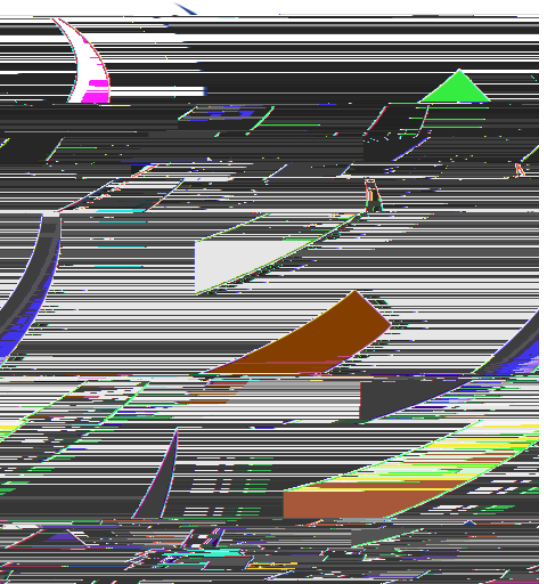
- Various regional and international initiatives aim to promote policy coherence in carbon pricing.

- International organizations are actively working to enhance transparency and promote information sharing of carbon pricing policies.

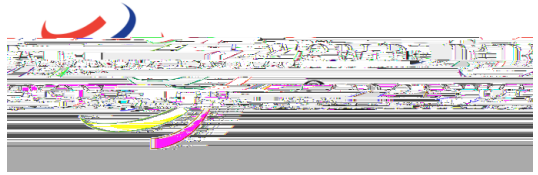
- International cooperation on carbon pricing is also taking place with respect to the measurement and verification of carbon footprint of a product.

These are all areas that would greatly benefit from additional international cooperation

International trade cooperation can contribute to supporting carbon pricing discussions



Indicative list of areas for further work



Areas for further work to enhance international co-operation in the area of carbon pricing include:

- The measurement of effective carbon prices
- Equivalence of carbon prices and other policies
- Measuring the carbon content of trade

The needs of developing countries and LDCs should be part of the discussions on carbon pricing approaches, as they face special challenges and may therefore require additional support from the international community.