

Aligning the UK's climate, trade and development policies: The case of the UK Carbon Border Adjustment Mechanism (CBAM)



**TRADE JUSTICE
MOVEMENT**

**Transform
Trade**

Contents

03 Introduction

04 What are CBAMs and what are they trying to achieve?

Why are CBAMs being developed?

The EU approach

05 Should the UK introduce a CBAM?

Assessing the risk of carbon leakage

CBAM effectiveness

Developing country concerns

Reasons for disproportionate impact on developing countries

08 Considerations for the UK Government: mitigations and alternatives

Pro-development CBAM design considerations

Proactive support for developing country decarbonisation

12 Conclusions and Recommendations

Recommendations

13 References

Introduction

The climate emergency is causing increasingly extreme and unpredictable weather, causing death and severe hardship for people around the globe and leading to the loss of natural habitats and biodiversity. In recent years, institutions such as the Intergovernmental Panel on Climate Change (IPCC) have issued stark warnings that the window for keeping global warming below 1.5 degrees is closing fast, and that countries are doing too little to prevent even the worst-case scenario.¹

A global problem such as the climate emergency requires urgent action from all governments. But the extent and speed of that action is varying significantly.² This has prompted fears of 'carbon leakage', where carbon-intensive industries seek to avoid additional costs by moving from countries with more ambitious climate policies to those with lower levels of ambition and regulation.

One response to this problem is a Carbon Border Adjustment Mechanism (CBAM): a border tax which seeks to ensure that goods imported into a country have paid the same carbon costs as domestic producers, protecting domestic industries as they seek to reduce emissions and potentially incentivising greater action in 'laggard' countries by removing the competitive advantage of maintaining low environmental regulations. The EU has already introduced a CBAM. The UK is actively considering introducing its own version, possibly from 2026, and is likely to base much of the design on the EU's approach.³

This briefing outlines what CBAMs are and what they are trying to achieve. It assesses the case for the UK introducing a CBAM and the possible risks, including problems in assessing carbon leakage and the implications for developing countries. Finally it outlines options for the UK to consider if it is to balance its climate, trade and development objectives as well as make good on its commitment to the Paris Agreement principle of Common But Differentiated Responsibilities.⁴

Key recommendations for the UK Government are:

- **Exempt developing countries from any future UK CBAM or provide lengthy transition periods.**
- **Ringfence the revenues generated by any future UK CBAM to support green transition in developing countries.**
- **Keep their promise on climate finance to support developing countries to deal with the climate emergency.**
- **Ensure a supportive policy framework for the transfer of green technology.**

1 United Nations Press Release (4 April 2022) [Secretary General Warns of Climate Emergency, calling Intergovernmental Panel's Report a 'file of shame'](#)

2 See for example the New Climate Institute [Climate Change Performance Index](#).

3 Pickard J, Pfeifer S, Sheppard D and Mooney A (13 November 2023), [UK to press ahead with carbon border tax in 2026 Financial Times](#)

4 The Paris Climate Agreement (2015) commits signatories to respecting the principle of Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC) as they pursue their climate goals. The principle seeks to ensure greater equity, by recognising the varying degrees of responsibility for the climate crisis and the varying capabilities that different countries have to respond.

What are CBAMs and what are they trying to achieve?

Why are CBAMs being developed?

CBAMs aim to ensure that a country's climate policies effectively contribute to a reduction in global emissions, guarding against the possibility of firms shifting their carbon-intensive activity to a different country with lower standards - so-called carbon leakage. The EU CBAM, introduced in 2023, aims to "serve as an essential element of the Union's toolbox for meeting the objective of a climate-neutral Union at the latest by 2050 in line with the Paris Agreement by addressing the risk of carbon leakage that results from the Union's increased climate ambition" and "contribute to promoting decarbonisation in third countries."⁵ In March 2023 the UK government launched a consultation on a range of "potential policy measures to mitigate future carbon leakage risk". The UK's consultation document defines carbon leakage as "the movement of production and associated emissions from one country to another due to different levels of decarbonisation effort through carbon pricing and climate regulation."⁶

The EU approach

The EU's CBAM went live on 1 October 2023 with a transitional phase which will last until 2026. It will initially cover seven sectors: iron, steel, cement, fertilisers, aluminium, electricity and hydrogen including both direct and indirect emissions.⁷ During the transition period producers and importers are required to monitor and report the levels of

embedded emissions in relevant products, as well as to begin to estimate any carbon price paid locally. From 2026 importers will be required to purchase CBAM certificates at the EU's carbon price, which will be discounted if they can prove a carbon price has already been paid locally. There is an exemption for imports from countries which already participate in the EU Emissions Trading Scheme (ETS) (a scheme which caps the overall permitted carbon emissions and requires polluters to pay for those emissions) or countries that fully link their own emissions trading scheme to the EU ETS. There are no exemptions for imports from developing countries, despite a strong lobby for this approach (see below), and non-pricing policies such as regulations which may contribute to decarbonisation are not accounted for. There will be a review of the scheme during the transitional phase which will include consideration of extending the scope of the CBAM to other sectors covered by the EU ETS including organic chemicals and polymers, with the overall aim for the scope to potentially include all goods covered under the EU ETS by 2030 (e.g., mineral oil products, lime, glass, ceramics, pulp, paper, cardboard, acids, and bulk organic chemicals).

The EU CBAM will assign 'default values' for countries which are not reliably measuring emissions. In the absence of accurate figures for particular industries, emissions will be set based on the average emission intensity of each exporting country and for the goods in question, increased by a mark-up; where reliable data for the exporting country as a whole is not available, the default values will be based on the average emission intensity of the 10 per cent worst-performing EU installations for that type of goods.⁸

5 European Union (2023) [Regulation \(EU\) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism](#)

6 UK Government (March 2023) [Addressing Carbon Leakage Risk to Support Decarbonisation](#)

7 The EU CBAM will apply to direct emissions of greenhouse gases emitted during the production process of the products covered, as well as to indirect emissions for a subset of those products (i.e. cement and fertilisers).

8 European Union (2023) [Regulation \(EU\) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism](#)

Should the UK introduce a CBAM?

The EU's CBAM is an immensely complex policy instrument, placing considerable cost and administrative burden on EU importers to report the carbon content of the goods they import, which in turn requires manufacturers to be monitoring, measuring and verifying embedded emissions which is also difficult and costly.

When considering establishing such a scheme the UK should consider the difficulties in accurately assessing the level of future carbon leakage risk, the effectiveness and proportionality of the policy and the impact on developing countries, as well as whether there are alternative routes to achieve similar outcomes.

Assessing the risk of carbon leakage

Understanding and addressing the risk of carbon leakage is complex and there is by no means a consensus on the topic. It requires an assessment of whether carbon leakage is already a problem, followed by an assessment of whether the risk of leakage is likely to increase in the future. In both cases, a policy intervention should be justified by an assessment showing that leakage is a result of climate policies, rather than other factors.

For years richer countries have been 'offshoring' emissions as carbon-intensive processes are increasingly located in the Global South. However this process has been driven largely by factors other than climate policy, for example the availability of cheaper labour or active state industrial policies. The Grantham Institute at the London School of Economics explains the difficulty of isolating climate policies as the sole

or main driver of shifts in production and investment: "with many underlying trends and factors driving trade and investment flows, in reality it is extremely difficult to attribute changes to trade-embodied emissions to any one specific factor, such as climate policy differences."⁹ The UK Government's March 2023 consultation document on this topic makes a distinction between carbon leakage and 'emissions displacement' and makes clear that only policies to address the former are being considered.¹⁰

Most carbon pricing schemes in operation today, such as the EU and UK ETS, have built-in 'leakage avoidance' policies in the form of relatively low carbon prices and free allowances which are allocated to carbon-intensive sectors. It is only as and when these are gradually phased out that the risk of real carbon leakage is likely to increase. Assessing the level of this future risk is challenging and often relies on unreliable predictive modelling. As the IMF observes, "there remains significant uncertainty with respect to carbon leakage as the existing literature provides at best little guidance for policy. These model-based estimates of carbon leakage appear to be sensitive to underlying model and scenario assumptions."¹¹ In addition, understanding the likely risk of future carbon leakage relies partly on assessments made by industry, which could be considered to have a vested interest in the implementation of a CBAM, potentially exposing the policy to allegations of 'protectionism in disguise'.

The difficulties of assessing carbon leakage risk are being raised in various international forums, including at the World Trade Organisation (WTO) where China recently released a paper calling for a more detailed discussion around the measurement of carbon leakage and justifications for carbon border adjustments.¹²

9 Sato, M and Burke, J (8 December 2021) [What is carbon leakage? Clarifying misconceptions for a better mitigation effort](#)

10 UK Government (March 2023) [Addressing Carbon Leakage Risk to Support Decarbonisation](#)

11 Misch, F and Wingender, P (August 2021) [Revisiting Carbon Leakage IMF Working Paper](#)

12 Communication from China at the WTO (10 November 2023) [Policy Issues for Dedicated Multilateral Discussions on Border Carbon Adjustments WT/CTE/W/258](#)

CBAM effectiveness

There are already indications that the EU's CBAM may not have a significant impact on overall global emissions. A study by UNCTAD estimated that the EU CBAM will reduce global CO₂ emissions by just 0.1%, while a study by the African Climate Foundation (ACF) and the London School of Economics (LSE) found that the EU's CBAM would reduce worldwide CO₂ emissions by between 0.03% and 0.002% depending on the scenario.¹³

One reason for this low impact is the likelihood of emissions 'shuffling' or diversion of trade to other countries or blocs, rather than actual emissions reductions. For example it is very likely that Least Developed Countries (LDCs) such as Mozambique when faced with CBAM charges, will not have the resources to invest in decarbonisation, but will instead seek to sell their carbon-intensive products to other markets without such restrictions, for example to China, India or within Africa. There would therefore be no overall reduction in the carbon emitted.

The EU's CBAM is a blunt instrument in that it relies solely on carbon price as a proxy. It is therefore likely to underestimate real world climate action as it does not account for regulatory or other measures that countries might be taking.

Developing country concerns

The international trading system already disadvantages developing countries. Transitioning to a low-carbon economy is highly resource-intensive. Developed economies including the UK, EU and United States are providing significant support to their industries to decarbonise.¹⁴ For developing countries, most of which already have low per capita emissions, this may either not be a priority (when compared with necessary climate adaptation or development priorities), or achievable without significant additional financing.

New measures that would have the (even unintended) effect of penalising the economic development of low emitters could be seen as unjust, particularly in a context where countries are already locked into low-value production of raw materials and struggling to access higher value operations in supply chains.

A number of studies of the EU's CBAM have explored the likely impacts on developing countries and should inform UK decisions in this area. While developing countries are not the most seriously impacted in aggregate terms, there is a consensus that the measure is likely to have disproportionate impacts in terms of economic development prospects for some countries, particularly in Africa, and that a few LDCs are particularly at risk. This has important implications for equity and can be seen to run counter to the Paris Climate Agreement principle of Common But Differentiated Responsibilities (CBDR).

UNCTAD found that under an EU CBAM with a carbon price of \$44 per tonne of CO₂, exports from developing countries to the EU will be reduced by 1.4%. This reduces the income of developing countries by \$5.9 billion, whilst developed countries see an increase of \$2.5 billion.¹⁵ A study by the ACF and the LSE found that the EU's CBAM will disproportionately affect African countries and could reduce Africa's GDP by up to 0.91% (at a carbon price of €87 per tonne modelling the current scope of sectors), an annual loss of \$25 billion, equivalent to one quarter of promised international climate finance. Certain countries and industries are particularly exposed, with research by the Centre for Global Development highlighting significant concerns for Mozambique, Mauritania, Sierra Leone and Senegal¹⁶. Assessing the impact of a potential UK CBAM, the Centre for Inclusive Trade Policy (CITP) found "The impact of the UK CBAM could be very significant for the exports of several LDCs and Low/Low Middle Income Countries to the UK. Among LDCs, the shares of regulated products in exports to the UK are 18.7% and 11.7% for Sierra Leone and Central African Republic respectively in 2022."¹⁷

13 UNCTAD (July 2021) [A European Union Carbon Border Adjustment Mechanism: Implications for developing countries](#) The Africa Climate Foundation and London School of Economics (2023), [Implications for African Countries of a Carbon Border Adjustment Mechanism in the EU](#)

14 The United States' Inflation Reduction Act contains \$369 billion in new spending and tax breaks designed to boost clean energy. The EU has announced its €250 billion Green Deal Industrial Plan. The UK has a £1 billion Net Zero Innovation Portfolio, which aims to scale up low-carbon

technologies for use across UK industries.

15 UNCTAD (July 2021) [A European Union Carbon Border Adjustment Mechanism: Implications for developing countries](#)

16 Pleeck S, Denton F and Mitchell I (10 February 2022) [An EU Tax on African Carbon - Assessing the Impact and Ways Forward](#) Centre for Global Development Blogspot.

17 Sasmal S, Zhang D, Lydgate E and Winters L.A (2023) [Exempting Least Developed Countries from carbon border adjustments: A legal and economic analysis](#) Centre for Inclusive Trade Policy Briefing Paper 5

Developing countries have been vocal in raising their concerns about the EU's CBAM. In May 2022 the BRICS group of countries (Brazil, Russia, India, China and South Africa) issued a statement saying "We oppose any measures to restrict trade and investment and setting up new green trade barriers with the pretext of addressing climate change, such as the imposition of Carbon Border Adjustment Mechanisms, which are incompatible with multilateral rules under the World Trade Organization."¹⁸ A July 2023 communication by the Africa Group at the WTO noted, "Of particular concern are the unilateral environmental measures being pursued by some countries, which are implemented with little consideration of their potential impact on developing countries and have the effect of: (i) undermining the multilaterally agreed mandate of nationally determined contributions (NDCs) of the countries of export, (ii) conflicting with and undermine the common but differentiated responsibility and equity (CBDR) principle, (iii) creating a preferential treatment for domestic over imported goods, restricting the market access of developing countries and least developed countries (LDCs) and creating a distortive effect on international trade, (iv) diminishing the prospects for development of developing countries, and (v) leading to a change in trade patterns with no significant reduction on emissions, and such actions will not succeed in either forcing or encouraging other countries to adopt equivalent environment policies."¹⁹ These concerns have been echoed by a wider group of developing countries at the WTO's Committee on Environment.²⁰

Reasons for disproportionate impact on developing countries

- Developing countries are often more dependent on a small number of markets. For example, the African continent is relatively more dependent on the EU market than other regions of the world. The ACF/LSE report notes that the EU accounts for 25.6% of Africa's fertiliser exports, 15.7% of iron and steel exports and 33.1% of manufacturing exports. For some LDCs there are even higher levels of dependence on the UK market. According to ITC data over 50% of Mozambique's unwrought aluminium exports are sold to the UK.²¹
- Developing country economies tend to be less diversified. The sectors targeted by CBAM policies may be just one high emitter in a country of overall low emissions, but that sector may be particularly important in helping to drive development through job creation and the development of secondary industries and revenue streams.
- Developing countries tend to rely on older and more carbon-intensive technologies for production. The introduction of a CBAM will not change the fact that countries lack adequate resources to invest in cleaner technologies or production methods.
- Even where production is less carbon-intensive, businesses in developing countries will struggle to demonstrate that this is the case because they lack monitoring and verification capabilities. This means that they are more likely to be subject to punitive default values.
- Of seventy low and lower middle income countries assessed by the Centre for Global Development, only one has an operational carbon pricing system in place, with a further six having plans to develop one.²² All other developing countries therefore will be subject to the full CBAM charge, irrespective of their levels of per capita emissions.
- Any sectoral expansion of a CBAM will deepen the impact on developing countries. If the ETS were to be expanded to include sectors such as agriculture, timber or textiles this would disproportionately impact developing countries and in particular LDCs which rely on these exports.

18 XIV BRICS Summit (May 2022) [Joint Statement issued at the BRICS High-level Meeting on Climate Change](#)

19 Communication by the Africa Group at the WTO (13 July 2023) [Principles Guiding the Development and Implementation of Trade-Related Environmental Measures WT/CTE/W/255](#)

20 WTO Committee on Trade and Environment (15 March 2023) [Environment committee draws members' broad](#)

[engagement, considers proposals to enhance work](#)

21 According to International Trade Centre data in 2022 Mozambique exported \$1,700,286 of unwrought aluminium, \$877, 558 (51.6%) of which went to the UK.

22 Pleek S and Mitchel I. (November 2023). [The EU's Carbon Border Tax: How Can Developing Countries Respond? Centre for Global Development](#)

Considerations for the UK Government: mitigations and alternatives

There is strong support for a UK CBAM from carbon-intensive industries in the UK, keen to proceed with decarbonisation but concerned about the risks of leakage. A recent survey by Stack Data Strategy and E3G shows that three-quarters of UK manufacturers (73%) back the UK introducing a CBAM, with fewer than one in ten (8%) opposing it.²³ Businesses are concerned about an influx of carbon intensive goods into the UK market once the costs of the EU CBAM start to kick in. There is also concern that UK exports to the EU will be impacted by the EU scheme, although this can be mitigated by the UK aligning its ETS with that of the EU.

It is also clear that there are risks for the UK to consider when assessing whether to proceed with a CBAM, including questions about the assessment of carbon leakage, policy effectiveness versus bureaucracy and serious concerns being raised by developing country partners, which, if unaddressed, risk undermining trust and progress at the United Nations Framework Convention on Climate Change.

In order to align its climate, trade and development policies the UK government can:

- Pursue a CBAM, but mitigate the negative impacts on developing countries via exemptions or long transition periods.
- In addition, the UK can seek to reduce the possible risk of carbon leakage to developing countries by providing the finance and technology transfer required to support the decarbonisation of intensive industries in those countries.

Pro-development CBAM design considerations

For any future UK CBAM to mitigate the potential negative impacts of a CBAM on developing countries it should be carefully and sensitively designed.

- **Development impact assessment.** The UK government should conduct a thorough assessment as to whether a CBAM will have a negative impact on developing countries' abilities to deliver on their development and climate priorities, and should propose mitigation policies.
- **Developing country exemptions/transition periods.** The most effective way to mitigate impacts on developing countries would be to exempt them from a UK CBAM altogether. Alternatively longer transition periods could be provided, coupled with additional finance, to allow high-emitting industries time to improve. To do this the UK could employ the categories that it has used in its Developing Country Trading Scheme (DCTS) where trade preferences are given to LDCs and then to a wider group of Lower Middle Income Countries (LMICs) based on economic vulnerability criteria. This methodology has been widely accepted and has been successful in targeting countries that are economically vulnerable. Alternatively the UK could exempt all LDCs. This would mean the most vulnerable (and some of the most exposed countries such as Mozambique) would not face the measures. The UK could also consider exempting countries based on their current per capita emissions.
- For the UK to take this approach would carry a number of advantages. A study by CITP found that exempting all LDCs from a UK CBAM would not affect the effectiveness of the overall policy, as imports from these countries amount to just 0.03% of all UK imports of CBAM regulated products.²⁴ Providing exemptions -

23 Peters, J (November 2023) [UK businesses overwhelmingly back carbon border tax](#) Stack Data Strategy and E3G

24 Sasmal S, Zhang D, Lydgate E and Winters L.A (2023)

[Exempting Least Developed Countries from carbon border adjustments: A legal and economic analysis](#) Centre for Inclusive Trade Policy Briefing Paper 5

or at the very least longer transition periods - would make the policy less likely to encounter opposition at the WTO, could strengthen arguments around the WTO compatibility (see Box) and could set a valuable pro-development precedent for other countries looking to develop similar measures to deal with the risk of carbon leakage.

- **Use of revenues.** The EU CBAM is predicted by the European Commission to raise €1 billion per year from 2026 to 2030.²⁵ Calls from the European Parliament for this to be used to support the green transition in developing countries were resisted, with the EU instead deciding to use the revenue internally instead. Any UK CBAM would face considerably less opposition from developing countries if there was a clear and ring-fenced commitment to use the revenue raised to support less developed countries to deliver their climate ambitions.
- **Default values.** The EU has adopted a stringent approach to the calculation of default values based on the 'worst available technology' which will punish manufacturers who do not have access to continuous emissions monitoring technology and are unable to provide accurate data. This will likely have a disproportionate effect on suppliers from developing countries. It will be important for the UK to ensure that where default values are used they are not designed in this punitive manner.
- **Supply chain impacts.** Careful thought must be given to the supply chain impacts of a CBAM. While it is the UK importer who will pay for a CBAM certificate, there is a danger that this cost could be pushed down the supply chain with potential impacts on wages and conditions for vulnerable workers. One possible way to discourage this practice would be to set up a price observatory in the relevant sectors to assess whether price pressure is being applied over time.
- **Sector coverage.** There is concern that once established, CBAMs could be extended to cover sectors such as textiles and agriculture that would have more serious impacts for developing countries and particularly for LDCs. The EU is

committed to reviewing the scope of its CBAM during the three-year transitional phase with a view to potentially expanding it to other sectors covered by the ETS, but the idea that the ETS would be expanded to include agriculture seems a very distant possibility. The potential inclusion of agriculture in the UK's ETS would be controversial and the UK ETS Authority has made it clear that they are not planning to expand the UK ETS to agriculture 'at this time'.²⁶ Nevertheless, given other countries such as New Zealand have taken the step of including agriculture in their domestic carbon pricing schemes, the UK should reassure developing countries that there will be no sectoral expansion of any UK CBAM without a full impact assessment and consultation with trading partners.

Proactive support for developing country decarbonisation

As an alternative or supplement to a CBAM, the UK should concentrate on ensuring developing countries are able to access the necessary finance to support decarbonisation. This may be a more effective way of reducing the risk of carbon leakage to developing countries than imposing a border tax. According to the International Renewable Energy Agency, countries defined as 'least developed' by the IPCC attracted only 0.84% of renewable energy investments on average between 2013 and 2020. In 2021, investment in renewable energy per capita in Europe was 41 times that in Sub-Saharan Africa.²⁷ It is therefore vital that the UK plays its role in supporting investment and providing adequate climate financing including through the expansion of schemes such as the Just Energy Transition Partnerships.

Improving developing countries' access to low-carbon technologies will also be critical in supporting countries' decarbonisation efforts. At present according to the World Intellectual

²⁵ European Commission Press Release (22 December 2021) [The Commission proposes the next generation of EU own resources](#)

²⁶ A joint response of the UK Government, the Scottish Government, the Welsh Government and the Department of

Agriculture, Environment and Rural Affairs for Northern Ireland (June 2023) [Developing the UK Emissions Trading Scheme: Main Response](#)

²⁷ International Renewable Energy Agency (2023), [Global Landscape of Renewable Energy Finance 2023](#)

Property Organisation most patents for low-carbon technologies are concentrated in OECD countries. The WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement enforces patent protection, but also allows for the use of compulsory licensing in certain situations so that technologies can be used without the permission of the patent holder. So far this has only been applied to ensure access to critical medicines, but, given the nature of the climate emergency, the UK could work with partners

at the WTO to make a strong case to extend this understanding to low-carbon technologies. This would be in line with commitments to technology transfer under the UNFCCC. The UK could also ensure there are strong incentives for British enterprises and institutions to transfer technology as per Article 66.2 of the TRIPS agreement, particularly if requested by LDCs in sectors covered by a CBAM, and to report on the effectiveness of this transfer.

Avoiding a battle at the WTO

The EU's CBAM has faced considerable criticism from developing countries at the WTO, although no member has yet launched a formal challenge. The measure could be challenged as violating WTO rules on a number of grounds, including the Most Favoured Nation (MFN) principle as it arguably does not provide equal treatment to 'like' products. The EU will counter that the measure can be justified as an exception under General Agreement on Tariffs and Trade (GATT) Article XXb as 'necessary to protect human, animal or plant life or health' or Article XXg covering measures 'relating to the conservation of exhaustible natural resources'.

It is likely that the EU's decision not to exempt LDCs from its CBAM was in part due to concerns that this would undermine the policy's effectiveness in reducing emissions, and therefore weaken an Article XX justification. However, as the Centre for Inclusive Trade Policy has demonstrated, the UK imports very few carbon intensive industrial products from LDCs, so exemptions would not affect UK industry nor materially undermine the objectives or effectiveness of the policy.

The ACF and LSE's legal analysis goes further, arguing that measures can be considered discriminatory at the WTO if they have *not* looked into the "appropriateness of the regulatory programme for the conditions prevailing in exporting countries". Therefore a CBAM with differential treatment based on countries' level of development (such as exemptions) would arguably "strengthen a defence under Article XX of GATT, including arguments of 'necessity' under Article XX(b), and arguments that the CBAM does not amount to unjustifiable or arbitrary discrimination and is not a disguised restriction on trade."²⁸

It is extremely difficult to predict the outcome of any WTO challenge against a CBAM, particularly in the absence of a functioning Appellate Body. However it would clearly be preferable for the UK to design policy and flanking measures in such a way as to support equity and to avoid unnecessary diplomatic tensions.

28 The Africa Climate Foundation and London School of Economics (2023), "[Implications for African Countries of a Carbon Border Adjustment Mechanism in the EU](#)"

The UK's obligations to consider the impact of climate policies on developing countries

Article 4 of the United Nations Framework Convention on Climate Change (UNFCCC) (1992) states that parties are required to “take into full consideration, in the implementation of the commitments of the Convention, the specific needs and concerns of developing country Parties arising from the impact of the implementation of response measures”

The Paris Climate Agreement (2015) commits signatories to respecting the principle of Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC) as they pursue their climate goals.

In order to align CBAM policy with the principle of CBDR-RC the UK should acknowledge:

- The factors contributing to a disproportionate impact of carbon border measures on developing countries.
- The historical factors that have locked developing countries into the carbon-intensive but lower value-added stages of production chains.
- The extremely low contribution developing countries - and in particular LDCs - make to global emissions and their right to develop.

Conclusions and Recommendations

The UK should respond to any potential carbon leakage risk in a proportionate, targeted, evidence-based, and effective way, which aligns the UK's climate and trade policies with its international development commitments, including to CBDR.

It is extremely difficult to prove that carbon leakage is already happening. While the risk may well increase as free ETS allocations are phased out and more rigorous climate measures are brought in, it is difficult to predict how serious and immediate the impact of this will be. The CBAM is a blunt instrument and on its own, there is little to guarantee that it will drive down carbon emissions globally. There is however serious concern that a UK CBAM could cause setbacks to economic development in some developing countries. The EU's scheme has faced considerable opposition on this basis.

The UK should approach a CBAM with caution, ensuring that it is effective in reducing overall emissions.

The UK can ensure its climate, trade and development policies are aligned by seeking to mitigate the potentially negative impacts of a CBAM on developing countries via sensitive policy design, such as exemptions or long transition periods. As an alternative to a CBAM for developing countries, the UK can seek to reduce the risk of carbon leakage by providing the finance, investment and transfer of technology necessary to actively support the decarbonisation of industries in developing countries.

Recommendations

The UK Government should:

- Carefully assess the real risk of future carbon leakage.
- Conduct a comprehensive development impact assessment of a possible UK CBAM.
- Engage actively and constructively with developing countries throughout any CBAM design.
- Exempt developing countries from any future UK CBAM or provide lengthy transition periods.
- Ringfence the revenues generated by any future UK CBAM to support the green transition in developing countries.
- Design default values which are less punitive on countries which lack monitoring and verification capabilities, and consider establishing sectoral price observatories to monitor supply chain impacts.
- Ensure the UK is meeting and enhancing its commitment to the international climate financing necessary to support developing countries meet the challenges of the climate emergency, including but not limited to, decarbonising their industrial sectors.
- Step up efforts to ensure a supportive policy framework for and practical progress in the transfer of green technology.

References

Africa Climate Foundation and London School of Economics (2023). Implications for African Countries of a Carbon Border Adjustment Mechanism in the EU. LSE.

XIV BRICS Summit (May 2022). Joint Statement issued at the BRICS High-level Meeting on Climate Change.

Communication from the Africa Group at the WTO. (2023). Principles Guiding the Development and Implementation of Trade-Related Environmental Measures. WT/CTE/W/255

Communication from China at the WTO (2023). Policy Issues for Dedicated Multilateral Discussions on Border Carbon Adjustments. WT/CTE/W/258

Lowe S (2021). The EU's carbon border adjustment mechanism: How to make it work for developing countries. Centre for European Reform.

Misch F and Wingender P (2021). Revisiting Carbon Leakage. IMF Working Paper

Peters, J. (November 2023). UK businesses overwhelmingly back carbon border tax. Stack Data Strategy and E3G

Pleeck S, Denton F and Mitchell I. (10 February 2022). "An EU Tax on African Carbon – Assessing the Impact and Ways Forward. Centre for Global Development

Sasmal S, Zhang D, Lydgate E and Winters L.A. (2023). Exempting Least Developed Countries from carbon border adjustments: A legal and economic analysis. Centre for Inclusive Trade Policy Briefing Paper 5

Sato M and Burke J (2021). What is carbon leakage? Clarifying misconceptions for a better mitigation effort. Commentary by the Grantham Research Institute on Climate Change and the Environment, London School of Economics.

UNCTAD (2021). A European Union Carbon Border Adjustment Mechanism: Implications for developing countries. UNCTAD. Geneva.



Aligning the UK's climate, trade and development policies: The case of the UK Carbon Border Adjustment Mechanism (CBAM)

November 2023

Written by Liz May and Ruth Bergan



The Trade Justice Movement is a network of nearly 60 organisations, including trade unions, environmental groups and justice campaigns, who push for trade policy that works for people and planet.

www.tjm.org.uk

[@TradeJusticeMov](https://twitter.com/TradeJusticeMov)



Transform Trade work alongside communities experiencing injustice, and fight for trade that values people over profit. Their roots are in the alternative trade movement in the North East of England and draw support from across the UK and beyond. Transform Trade work in partnership with networks of workers, farmers and social entrepreneurs in South Asia and East Africa to transform trade so that everyone benefits, focussing on Fashion, Tea and Farming. Transform Trade used to be known as Traidcraft Exchange.

www.transform-trade.org

[@transformtrade_](https://twitter.com/transformtrade)