



Response Measures

Understanding their Breadth, Impacts and Possible Approaches for the Forum

UNFCCC Side Event
Organized by ICTSD

08 June | 15:15 – 16:45

SOLAR room



Developing Countries' Trade Vulnerabilities to EU and US Climate Change Policies

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Carbon leakage and competitiveness concerns

- Concern that an imposed carbon cost decreases competitiveness, changes production patterns, and as a result market share will be lost
- Carbon leakage: “an increase in emissions outside a country as a result of the country’s climate policy and resulting decreases inside the country” IPCC

Border Carbon Adjustments (BCAs)

- Respond to carbon leakage and competitiveness concerns
- Impose a carbon price at the border:
 - Tax / tariff
 - Obligation to buy allowances
- Negatively affects export opportunities

Exports that could likely be affected by BCAs

- LDCs likely to be exempted
- Emission-intensive, trade-exposed industries
- “Usual suspects”: iron and steel, aluminum and copper, cement, glass, paper, pulp, chemicals, petroleum refining
- US: Waxman-Markey and Kerry-Lieberman Bills
- EU: List of carbon leakage sensitive sectors (164); 82% of total 2007-09 imports of the EU-27

Identifying countries and sectors eligible for BCAs in draft US legislation

Identifying sectors
eligible for free
allowances, based on
energy- or GHG-
intensity and trade
intensity

All sectors eligible for
FA are eligible for
BCAs, except if large
part of imports come
from countries having
signed emission
reduction agreement
or has an
energy/GHG intensity
lower than the US

Eligible if a country

- is not an LDC
- accounts for at least 0.5 per cent of global emissions or more than 5 percent of US imports
- energy and GHG intensity lower than that of the US
- has not signed an emission reduction agreement with the US

Carbon leakage sensitive exports to the US – LAC region (1)

Country	Share of total exports to US that could face BCA (2007-09)	Exports to the US as a % of total exports (2007-09)
Argentina	20.61%	7.39%
Brazil	21.27%	13.45%
Mexico	3.55%	81.06%
Venezuela	3.59%	19.45%

Carbon leakage sensitive exports to the US – LAC region (2)

Country	Share of total exports to US that could face BCA (2007-09)	Exports to the US as a % of total exports (2007-09)
Bahamas	19.24%	71.03%
Bolivia	17.10%	7.65%
Chile	27.38%	12.11%
Colombia	1.52%	37.84%
Dominican Republic	0.01%	61.24%
Netherlands Antilles	0.07%	20.35%
Paraguay	0.04%	1.93%
Peru	21.40%	18.44%
Trinidad and Tobago	20.40%	51.68%

EU list of carbon leakage sensitive sectors

Criteria for inclusion on the list of sectors sensitive to carbon leakage

A substantial increase of production costs of at least 5 percent *and* the intensity of trade with third countries is above 10 percent

Particularly high increase of production costs, of at least 30 percent

Intensity of trade with third countries above 30 percent

Carbon leakage sensitive exports to the EU (1)

Country	Share of total exports to EU that could face BCA (2007-09)	Exports to the EU as a % of total exports (2007-09)
China	6.95%	20.11%
India	23.75%	21.19%
Brazil	13.80%	23.66%
Mexico	10.56%	5.45%
Indonesia	17.51%	11.58%
South Korea	8.94%	13.94%
Iran	6.34%	
South Africa	28.10%	30.75%
Saudi Arabia	16.24%	7.05%

Carbon leakage sensitive exports to the EU (2)

Country	Share of total exports to EU that could face BCA (2007-09)	Exports to the EU as a % of total exports (2007-09)
Thailand	5.03%	13.04%
Argentina	4.84%	18.32%
Nigeria	2.49%	20.73%
Taiwan	6.98%	
Venezuela	41.83%	4.42%
Pakistan	13.61%	25.70%
Malaysia	5.15%	11.69%
Egypt	31.19%	32.97%
Kazakhstan	14.05%	43.83%

Conclusions

- Findings vary widely between countries; production and export patterns and importance of imposing country as export market
- Sectoral coverage is crucial

Way forward

- More research needed
- Space for discussion needed
- WTO; Singapore's submission on BCAs
- Language of crucial importance
- ...

Sources

- ICTSD (forthcoming, 2011), Developing Countries' Trade Vulnerabilities to EU Climate Policies: An Overview of Carbon Leakage Sensitive Trade Flows, ICTSD Programme on Competitiveness and Sustainable Development
- ICTSD and IADB (forthcoming, 2011), Vulnerabilities in Latin America and the Caribbean to Trade-Related Climate Change Policies: The Case of Border Carbon Adjustment Measures