

HOW A BORDER CARBON ADJUSTMENT WOULD MAKE NET ZERO AN OPPORTUNITY FOR GLOBAL BRITAIN

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ABOUT THIS NOTE

This note was written by Rachel Wolf and forms part of a series of work by the Zero Carbon Campaign on global carbon pricing. This includes a [technical paper](#) exploring whether the UK should implement a Border Carbon Adjustment (BCA) and how it might go about doing so, as well as a [paper](#) examining further policy options for driving progress towards a global agreement on carbon pricing. If you have any comments or questions regarding this work, please contact info@zeroc.org.uk.



Overview

- **Later this year the UK will host the G7 summit and COP 26.** We hope by then countries will have opened up their economies significantly and populations will be substantially vaccinated. The summer will be when the definition of our post-Covid world, and the UK's place within it, begins.
- **The Government has already decided that the environment is a core part of Global Britain's ambitions.**¹ This is both morally and politically sensible. Biden's election as President means that the US, Canada, the EU and the UK are aligned in their desire to reach net zero. China has committed to net zero 'before 2060', and Japan by 2050.
- **The UK has credibility.** It led the world in writing binding climate change targets into legislation and now has the opportunity in the next six months to be a global leader and driver on net zero, while managing its own interests domestically and in terms of free trade.
- **Countries are still moving to follow the UK on its legislative commitments.** By publicly seeking to drive global ambition on carbon pricing - including through leading multilateral engagement regarding the implementation of Border Carbon Adjustments - it can drive the next wave of serious climate commitments and tackle the problem of carbon leakage.

¹ Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy. Available [here](#).

Introduction

The purpose of this short note, attached to two longer policy papers, is to set out how taking the lead on multilateral negotiations regarding Border Carbon Adjustments would help the UK Government achieve three interrelated goals.

- 1. Be a world leader on reducing carbon...while managing its own domestic politics.** The UK has led the world in many areas of carbon reduction. It is now at some risk of falling behind as other countries pursue carbon pricing in the majority of sectors. The UK has made huge progress in the last six months in setting out a trajectory and investment path for net zero, but it has done less to show how it will incentivise the reduction of emissions, or raise revenue for those investments. It is very clear from [our polling](#) that people's long term support for net zero is contingent on everyone seeming to 'pay their fair share.'
- 2. Drive global demand and supply of green goods...while managing its own domestic politics.** The UK is investing in net zero production of goods and power, and has shown enormous progress in recent years. It has done [less well on consumption](#) – we continue to import emissions-intensive products from abroad. A small green market in the UK – which may end up being undercut on price, with some risk to jobs – will barely dent global emissions. We need to grow the global market for green products and help governments everywhere support this aim. To date, all have been tentative about 'globally exposed' manufacturing and agriculture because they exist in such complex, multinational supply chains. A multi-country solution is needed.
- 3. Sign new trade deals...while managing its own domestic politics.** Internationally, Britain is trying to secure trade agreements with countries around the world. Several of these do not have any carbon pricing in their own country, and almost none have prices at the level required to meet net zero. The UK population wants to ensure trade deals maintain our environmental standards – a multilateral agreement on carbon prices would help.

What does this mean for policy?

We are calling on the Government to seek agreement among a “high ambition club” of countries to engage in multilateral discussions relating to the development and implementation of Border Carbon Adjustments (BCAs). The most appropriate forum in which to host these conversations would be the G7 summit in the summer. The papers attached to this note describe how a UK BCA would work in detail, as well as how multilateral agreements with regards to BCA implementation might work.

What is a BCA?

A simple BCA in the UK would work as follows:

1. The UK has a domestic carbon price on industry;
2. The UK then places an equivalent levy on goods imported from countries which have not introduced an equivalent carbon price;
3. If importers could prove that their products had been produced in a low-carbon way, they could argue for a reduction in or exemption from the BCA.

Let us assume country A has an equivalent carbon price to the UK, and country B does not. Goods from country A could export into the UK as normal. Goods from country B would be charged a UK equivalent carbon price at the border. This would incentivise country B to either introduce their own carbon pricing system (and keep the revenues for themselves), or produce lower-carbon products (which would be exempt from the UK border carbon price). The additional cost would also mean that UK consumers were not incentivised to buy low-cost high-carbon goods from a regime that lacked equivalent environmental standards.

Our view is that a BCA is only tenable if it is formed through substantial international agreement. The EU has already signalled its intent to create a BCA on a limited number of products, and the Biden administration’s pre-election material [has hinted at the same](#), notwithstanding the complications caused by the absence of a federal carbon tax.

There is a good chance that the UK could secure an agreement from other partners to align on carbon pricing by implementing an ‘International carbon Price Floor’² outside of which a BCA would be applied. This would be a much more meaningful agreement in the run up to COP, and much more tangible, than yet another commitment on emissions trajectories. It would also ensure progress towards global carbon pricing agreements, currently being hampered by a lack of consensus on Article 6 of the Paris Agreement.

² This may be lower than the UK’s current carbon price, but would still drive progress towards global carbon pricing parity, providing a substantial incentive to other countries to increase domestic carbon pricing ambition, whilst protecting jobs.

Agreement with the EU and the US (and hopefully other countries) would also minimise the risk of a BCA damaging the UK's effort to secure trade deals, and also make legal agreement with the WTO substantially more likely.

Two issues remain:

1. 'Least developed countries' that cannot easily afford carbon pricing;

For this, there is precedent. The WTO allows for developing countries to receive special and differential treatment, and the UK already makes use of these provisions to grant unilateral tariff and quota-free access to 46 least developed countries, as defined by the United Nations. The same principle could be extended to a BCA – at least for those countries which contribute relatively little to emissions and global manufacturing. The UK already provides technical support to jurisdictions looking to implement their own carbon pricing systems via the Partnership for Market Implementation. As well as supporting low-carbon development abroad, this could, over time, remove the need for BCA exemptions as we progress towards global carbon pricing parity.

2. How to develop and manage the BCA regime.

Governments will need to shoulder the administrative burden while working closely with industry. A reasonable agreement at the G7 would be for the 'high ambition' countries to share the development and cost of initially creating a BCA system, but with an expectation that countries would contribute to the ongoing support of certification bodies - including validation of carbon footprint assessments.⁹ The UK could and should provide its expertise to support countries in doing this. It is likely the BCA would initially apply to a small number of relatively simple to measure products, and as such the burden would not be too great.

⁹ Low-carbon certification is something the UK Government has committed to exploring through their Industrial Decarbonisation Strategy (P40). Available [here](#).

Conclusion

Our hope is that a BCA would relatively swiftly become irrelevant as we all move to a net zero world. If every country has the appropriate environmental standards and carbon pricing regime to reach net zero, a border adjustment will be wholly unnecessary. The purpose of these proposals is to drive us more swiftly to that point, while ensuring that British jobs and manufacturing are supported. A BCA is the only credible way to achieve that aim.