

## Written evidence submitted by the Zero Carbon Campaign

### About the Zero Carbon Campaign:

The Zero Carbon Campaign was launched by entrepreneur and founder of OVO Energy Stephen Fitzpatrick in July 2019, following the introduction of the UK's 2050 net zero commitment. It calls for the government to introduce stronger and more consistent carbon pricing across more of the UK economy, to help drive a fair and just transition towards net zero, whilst catalysing a 'green recovery' from COVID-19. The Zero Carbon Campaign set up a **Commission** of leading scientists, business leaders, environmental and academic experts to work through the practical challenges of how such a policy might be structured and implemented.

Rachel Wolf of Public First was the Commission Secretariat. She authored the Commission's **interim report**, which was published in June 2020. The final White Paper was published on September 21st and can be found **here**.

Since the release of the White Paper, the **Zero Carbon Campaign** has been publicly campaigning for the Government to put stronger, fairer and more consistent carbon pricing at the heart of its plan for reaching net zero - including driving international leadership on Carbon Border Adjustment Mechanisms. We launched a **petition** calling for the introduction of more extensive charges on carbon emissions in February 2021 which received over 100,000 signatures and is scheduled for debate in Parliament on 1st November 2021.

This consultation response borrows extensively from literature and research that the Zero Carbon campaign has commissioned and published.

### Response summary:

- Whilst the risk of carbon leakage from the UK might be overstated, that does not negate the need to introduce policies to address it - especially as strengthened domestic decarbonisation policies are introduced to help deliver the UK Government's 2050 Net Zero target.
- Carbon Border Adjustment Mechanisms (CBAMs) can create the conditions under which domestic decarbonisation can take place, whilst levelling the playing field internationally to ensure that domestic producers aren't subjected to unfair international competition as they seek to decarbonise.
- It is possible for the UK to develop a WTO-compliant CBAM, but this should not be implemented in isolation; multilateral collaboration will be key - especially when it comes to seeking international co-operation to drive global ambition on carbon pricing.
- Whilst CBAMs have multiple benefits - including their potential to drive international ambition on carbon pricing and subsequent emissions reductions - they must not be treated in isolation; additional 'flanking' policies will be required to ensure that a focus on the emissions intensity of production does not have adverse environmental consequences - especially when it comes to land use and food production.

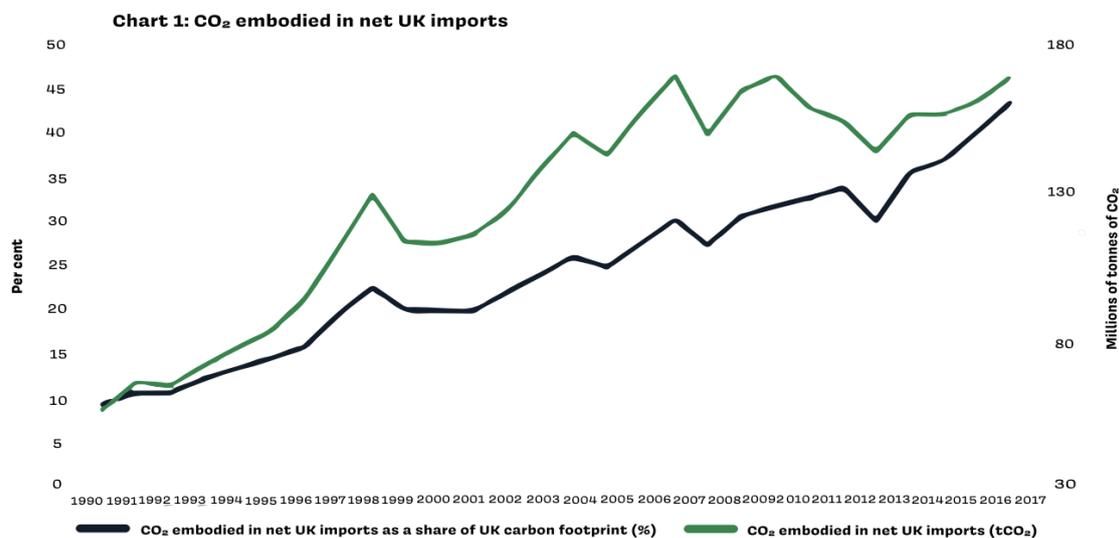
### Question 1: What are the risks to the UK posed by carbon leakage? How effective is the Government's current approach to tackling carbon leakage?

The risk of leakage lies more in perception than reality

While there is little historic evidence of large-scale carbon leakage from the UK,<sup>1</sup> the threat of carbon leakage - especially when it comes to 'offshoring' domestic manufacturing - has long been used to justify opposition to new measures to combat climate change. This makes it a significant risk in terms of obstructing the Government's efforts to meet its target to reduce UK emissions by 78% by 2035 compared to 1990 levels, and to net zero by 2050.

This is even more pertinent in the current context of cost scepticism surrounding net zero - including from the Chancellor and some MPs and commentators.<sup>2</sup> The perception that carbon leakage is a significant risk gives rise to fears that the UK's climate efforts will only serve to relocate - rather than reduce - our emissions, while damaging the British economy in turn. This framing of climate action as a zero-sum game damages the legitimacy of arguments in favour of policies to reduce our emissions on a domestic level, and on a global level too.

It is true that the share of CO<sub>2</sub> embodied in net imports as a share of the total UK carbon footprint has increased over the last two decades: from 10 per cent in 1990 to just over 40 per cent in 2017 (Chart 1).<sup>3</sup> However it would be wrong to assume that this shift was driven by climate policy alone, if at all. There are multiple other factors to consider such as the newfound access to cheap labour following China opening itself up to global trade. Also, from 2003 to 2017 the numeric amount of CO<sub>2</sub> embodied in net UK imports actually remained fairly constant (the same in 2017 as it was in 2007: 169 million tonnes of CO<sub>2</sub>), with the change in the total share being attributable to a steep fall in domestic emissions.<sup>4</sup>



Fear of carbon leakage prevents international cooperation to mitigate climate change, as political leaders are often concerned that other countries will free ride on their efforts, or - as many believe to be the likely response from jurisdictions such as China and Russia - implement trade barriers or sanctions in response to efforts to drive international progress.

These political dimensions are important to acknowledge – whether carbon leakage is a real risk or not, many people believe it is. And if the UK Government is to achieve its climate

<sup>1</sup> 'Research undertaken for the government in 2020 found limited empirical evidence of carbon leakage to date.' HMG (2021). Industrial Decarbonisation Strategy. Available [here](#).

<sup>2</sup> Guardian (2021). Treasury leak reveals rift between Johnson and Sunak over costs of zero-carbon economy. Available [here](#).

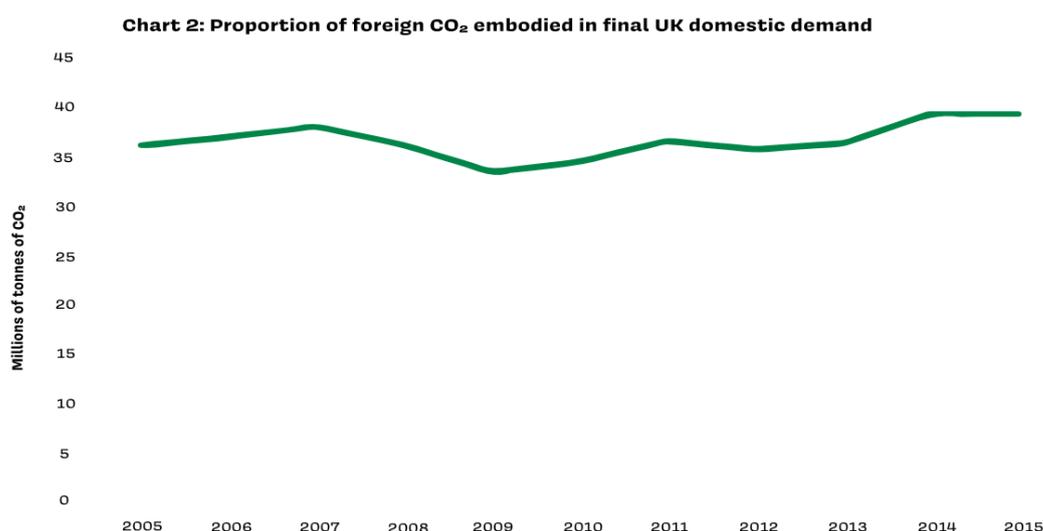
<sup>3</sup> Lowe, S (2021). Should the UK implement a Border Carbon Adjustment mechanism? Available [here](#).

<sup>4</sup> Global Carbon Project (2020). Data sources. Available [here](#).

goals, it will need to be able to assuage both domestic and international fears. It can do this through a variety of measures, including the introduction of a CBAM.

### **The risk of leakage could heighten as the UK strengthens domestic ambition on climate change, especially if other jurisdictions fail to raise theirs in turn**

The proportion of foreign CO<sub>2</sub> embodied in final UK domestic demand has remained fairly stable (if higher than the EU average of around 25 per cent) since 2005 (Chart 2).<sup>5</sup> This suggests that despite new measures such as the EU ETS coming into force during the observed period, there was little in the way of carbon leakage. Yet the lack of observable carbon leakage could be due to the price of ETS permits being relatively low for the duration of the observed period – despite permit prices peaking at €30.5 per tonne of CO<sub>2</sub> in 2008, by 2013 they had fallen to around €3, recovering to only around €8 by the end of 2015.



**Source:** Author's calculations based on OECD, carbon dioxide emissions embodied in international trade (2020).

The relative absence of carbon leakage can also be attributed to the Government's proactive use of measures to limit leakage risk and competitiveness impacts, including issuing a high volume of free pollution permits to ETS operators at risk of trade exposure. As we have noted in previous consultation responses - and as the Government has acknowledged in its Industrial Decarbonisation Strategy and more recently the Net Zero Strategy<sup>6</sup> - this approach may overcompensate for the risk of leakage, thereby undermining the incentive for industry to invest in decarbonisation.<sup>7</sup> The Government has pledged to address this by making policy interventions better targeted to mitigate carbon leakage, while incentivising abatement at the same time. This includes as yet undelivered promises to align the UK ETS emissions cap and trajectory with net zero (Carbon Budget Six), and expanding the UK ETS to cover the two thirds of domestic emissions that do not currently have a carbon price attached.

Such commitments are welcome - if somewhat overdue - but it's important to acknowledge their role in raising the carbon price, and the impact that this might have on domestic producers.

<sup>5</sup> Lowe, S (2021). Should the UK implement a Border Carbon Adjustment mechanism? Available [here](#).

<sup>6</sup> HMG (2021). Net Zero Strategy: Build Back Greener. Available [here](#).

<sup>7</sup> HMG (2021). Industrial Decarbonisation Strategy. Available [here](#).

European industry provides a good case study of this. In April, Tata Steel placed a €12-a-tonne carbon surcharge on metal produced in Europe, including the UK, following a doubling of the pre-pandemic price of carbon allowances in the EU ETS. The move raised the cost of polluting in the bloc far above any other region and has led to industry stepping up their calls for the EU to hasten the introduction of a carbon border tax to help offset the competitiveness disadvantage that they are facing.<sup>8</sup>

As the Zero Carbon Commission have argued, a stronger, fairer and more consistent approach towards domestic carbon pricing is required if the UK is to achieve its target to reduce emissions to 'net zero' by 2050. If the UK raised its carbon price to £75/tCO<sub>2</sub> and other countries did not do the same, the risk of carbon leakage would no doubt increase. The case for the expansion of domestic carbon pricing was recently reiterated in the Treasury's Net Zero Review.<sup>9</sup> As such - the Government has a responsibility to develop policy and trade mechanisms that can account for and address the increased risk of carbon leakage that strengthened domestic decarbonisation policies will bring.

### **Question Two: What role could a carbon border adjustment mechanism (CBAM) play in addressing carbon leakage and meeting the UK's environmental objectives?**

Whilst it remains to be seen what progress will be made with regards to Article 6 at the upcoming UN Climate Conference (COP 26), increasing attention has been paid to the role that Carbon Border Adjustment Mechanisms' (CBAMs) can play as a 'stepping stone' towards a global agreement on carbon pricing.

Under a CBAM, a domestic carbon price is extended to imports so that competitors are subjected to the same carbon costs as domestic producers. This provides a level playing field between domestic producers and importers, ensuring that increased ambition on carbon pricing (and other decarbonisation policies) does not cause 'carbon leakage' - the offshoring of emissions to jurisdictions with less ambitious climate policies in place. As such, it creates the conditions - in terms of both policy framework and competition management - for building a domestic market for low-carbon production.

It also helps to drive global progress on carbon pricing; under a CBAM, importing jurisdictions are incentivised to develop their own carbon pricing policies, because most countries would rather implement their own pricing system - and receive the revenues from it - than see that price paid to a different Government.

This can be seen playing out in real-time in response to the European Commission's commitment to implement a CBAM by 2023 as part of the European 'Green New Deal'. Whilst countries such as Japan have received reassurance that their strong domestic environmental agenda may ensure that they are not affected by the European CBAM,<sup>10</sup> the Australian Government - who boast far less impressive environmental credentials, including a redacted carbon pricing system - have been decidedly more rattled.<sup>11</sup> More constructively, the South Korean Government has been reported to be looking to secure talks with the EU over the planned CBAM off the back of fears that the country's steel and aluminium exports may suffer.<sup>12</sup>

It is also worth noting briefly that research has shown that the costs of the EU's CBAM on its competitors might be lower than initially thought, or is currently being anticipated by those

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<sup>8</sup> FT (2021). EU industry calls for urgent carbon border tax as prices soar. Available [here](#).

<sup>9</sup> HMT (2021). Net Zero Review. Available [here](#).

<sup>10</sup> Nikkei Asia (2021): EU climate head says carbon border tax unlikely to hit Japan. Available [here](#).

<sup>11</sup> Politico (2021). Australia attacks EU carbon border levy plans. Available [here](#).

<sup>12</sup> Econotimes (2021). S Korea to negotiate over EU's carbon policy that may burden steel, aluminium exports. Available [here](#).

most likely to be affected. For example, it is estimated by 2035 to cost the US €25m, China €200m, and Russia €600m.<sup>13</sup>

### **Question three: What wider opportunities and benefits might arise from introducing a CBAM?**

The primary benefits of introducing a CBAM have been outlined above; it can create the conditions under which domestic decarbonisation can take place - including enabling the introduction of strengthened domestic carbon pricing policies without operators being subjected to untenable international competition.

The global market for low-carbon goods and services is growing exponentially, with the Climate Change Committee (CCC) predicting it will be worth £1 trillion annually by 2030.<sup>14</sup> The UK's own low-carbon and renewable energy sector is projected to almost quadruple from £12 billion in 2015 to £44 billion by 2030.<sup>15</sup> This growth would create significant export potential for UK businesses, particularly for offshore wind and CCS, with the potential to add £3.6bn GVA by 2030.<sup>16</sup>

A CBAM would enable the UK to capitalise on the opportunities presented by the low-carbon economy, and create the conditions under which the job promises outlined in the Prime Minister's 10 Point Plan can be delivered. In the case of an EU CBAM being implemented without UK cooperation, LSE have estimated that a lack of ability to maintain pace with EU Environmental policy could see significant financial transfers from the UK to the EU, potentially amounting to €1 billion or more, with exporters of steel hit particularly hard.<sup>17</sup>

Critically, the implementation of a CBAM can also drive international ambition on carbon pricing, and ultimately, enable some sort of international carbon pricing equivalence. Even without consideration as to how revenues might be used to further the environmental impacts of multilateral action on CBAMs, the potential level of emissions abatement they could drive would be substantial. The IMF have proposed that G20 nations achieving a 'price floor' of \$50/25<sup>18</sup> would increase mitigation at the G20 level by 120% (relative to G20 countries meeting Paris pledges only)<sup>19</sup> even when only China, India, and the US participate.<sup>20</sup> This finding reflects: (i) the large share of relatively low-cost mitigation opportunities in these three countries; and (ii) their relatively lax pledges at present under the Paris Agreement.

### **Question four: Should the Government pursue a unilateral CBAM? If so, why and what form should this take? If not, are there alternative approaches to addressing carbon leakage which the Government should be considering?**

#### **Multilateral cooperation will be pivotal to the success of CBAM implementation**

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<sup>13</sup> Bloomberg (2021). World's first carbon border tax wouldn't be that expensive. Available [here](#).

<sup>14</sup> Climate Change Committee, 2017. UK business opportunity of moving to a low-carbon economy. Available [here](#).

<sup>15</sup> Climate Change Committee, 2017. UK business opportunity of moving to a low-carbon economy. Available [here](#).

<sup>16</sup> BEIS, 2021. Energy White Paper: Powering our Net Zero Future. Available [here](#).

<sup>17</sup> Burke et al (2021). What does an EU Carbon Border Adjustment Mechanism mean for the UK? Available [here](#).

<sup>18</sup> The IMF has proposed differentiated minimum prices for advanced and non-advanced countries under an ICPF in order to address international equity issues.

<sup>19</sup> IMF (2020). A proposal for an International Carbon Price Floor amongst high emitters

<sup>20</sup> According to the IMF, these three countries account for 80% of the future low-cost CO2 mitigation opportunities in G20 countries (who in turn collectively account for almost 80% of global emissions).

The implementation of a CBAM does not come without its challenges<sup>21</sup> - not least with regards to compliance with World Trade Organisation (WTO) obligations - and they have received some criticism as being an inward-facing, protectionist measure that goes against the principles of the Paris Agreement.<sup>22</sup>

In order to ensure that CBAMs live up to their environmental potential - including addressing issues such as 'freeriding'<sup>23</sup> - the Zero Carbon Commission has highlighted the need for multilateral cooperation with regards to their implementation.<sup>24</sup> More specifically, the Commission has called for the UK Government to lead a 'high ambition club' of countries who can align on carbon pricing levels by agreeing a 'carbon price floor', below which a CBAM would be implemented. Such a mechanism would create room for flexibility with regards to how carbon prices might be applied, whilst helping to realise the potential of CBAMs to drive international progress on carbon pricing.<sup>25,26</sup>

WTO Deputy Director-General Alan Wolff has reiterated the need for multilateral co-operation on this front, stating that *"Cooperation will be necessary as countries move to raise the cost of emitting greenhouse gases...the alternative to co-operation would be bitter conflict and protracted policy uncertainty. The WTO has an important role to play to deliver the better of these two choices."*<sup>27</sup>

### **CBAMs are not a silver bullet when it comes to driving global ambition on decarbonisation**

It is also important to note that CBAMs are not the only tool required to drive global emissions reductions, and additional mechanisms will be required to ensure that CBAMs do not lead to adverse consequences elsewhere as a result of their focus on emissions-intensity alone (see response to question six later in this document). Additional 'flanking policies' should include the implementation of product standards (such as the clean electricity standard currently being advanced in the United States)<sup>28</sup>, as well as outright bans where appropriate - for example on goods that don't meet the UK's minimum environmental or animal welfare thresholds in the way they are produced. As WWF's Angela Frances has argued<sup>29</sup> the benefits of flanking policies are extensive - they cover labour laws, environmental regulations and food safety regulations, and apply to all trade - meaning they are standards that no trade deal can change.

### **Question five: What risks would need to be managed when designing and implementing a CBAM?**

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<sup>21</sup> Lowe, S (2021). Should the UK implement a Border Carbon Adjustment mechanism? Available [here](#).

<sup>22</sup> Reuters (November 2019). China says CO2 border tax will damage global climate fight. Available [here](#).

<sup>23</sup> Critics (including Nordhaus 2015) highlight that under voluntary systems such as the Paris Agreement, jurisdictions can share in the benefits of action on climate change without having to commit any costs towards emissions abatement.

<sup>24</sup> Zero Carbon Commission (2020). How carbon pricing can help Britain achieve net zero by 2050. Available [here](#).

<sup>25</sup> Zero Carbon Campaign (2021): Towards a global agreement on carbon pricing. Available [here](#).

<sup>26</sup> This is a model that has also been variously proposed by the [International Monetary Fund](#) (IMF), [Bruegel](#) and more recently, the [Climate Leadership Coalition](#).

<sup>27</sup> S&P Global (2021). WTO launches trade sustainability group, carbon tax likely on agenda. Available [here](#).

<sup>28</sup> Vox (2021). The US is inching closer to passing a game-changing climate policy. Available [here](#).

<sup>29</sup> LinkedIn Article. Available [here](#).

In addition to the potential for adverse environmental consequences (detailed elsewhere in this response) there are a number of risks that need to be managed when designing and implementing an effective CBAM including the following:

<b>Risk / Design consideration</b>	<b>Approach towards mitigation</b>
Consistency of emissions intensity measurements	The development of consistent approaches towards measuring carbon emissions, and improvements in the accuracy of global carbon emissions data, will be important to underpin global climate mitigation policies, and a better understanding of the nature and extent of carbon leakage risks. <sup>30</sup>
Determining carbon price 'equivalence'	<p>In the first instance it would be simplest for equivalence to be determined by assessment of explicit carbon price levels. However, that is only possible if all jurisdictions have domestic carbon pricing in place, which is not yet the case with key players such as the United States who currently place more emphasis on implicit prices (such as product standards) than explicit ones, at least at the Federal level. It would be possible for the definition of equivalence to be broadened to include implicit prices, provided these approaches can be demonstrated to have an equivalent emissions impact as the CBAM carbon price level.<sup>31</sup></p> <p>Indeed - as with the proposal for an EU CBAM - it may make more sense to start by demanding equivalence in key sectors that have high levels of accountability and transparency in terms of carbon intensity of supply and value chains (i.e the power sector and energy-intensive industrial sectors such as cement and steel)<sup>32</sup> before extending that ambition across a greater proportion of a member's economy.<sup>33</sup></p>
<b>Ensuring WTO compliance</b>	<p>CBAMs are an untested area of WTO law, and opinions differ as to their potential legality. As Sam Lowe has argued, for a UK CBAM to have the best chance of facing down a legal challenge it should not discriminate in favour of domestically produced goods. In other words: the carbon price applied to imports can be no greater than that applied domestically. Jennifer Hillman, a former WTO appellate body judge, says that "the key is to structure any accompanying border measures as a straightforward extension to the domestic climate policy to imports."<sup>34</sup></p> <p>A UK CBAM should also be designed first and foremost with the UK's climate objectives in mind, and for the purpose of effectively reducing carbon emissions. This would ensure that even if the CBAM is found to be discriminatory, it may still be justifiable under the provisions of GATT Article XX (paragraphs b and g),<sup>35</sup> the environmental exception.</p>

<sup>30</sup> HMT (2021). Net Zero Review. Available [here](#).

<sup>31</sup> IMF (2020). A proposal for an International Carbon Price Floor amongst high emitters.

<sup>32</sup> European Parliament (2020). DRAFT REPORT: Towards a WTO-compatible carbon border adjustment mechanism. Available [here](#).

<sup>33</sup> Consideration should also be given as to how a CBAM can account for the likelihood of semi-finished products (i.e component fertiliser parts) being exported between jurisdictions in order to avoid paying a border levy on final products.

<sup>34</sup> Lowe, S (2021). Should the UK implement a Border Carbon Adjustment mechanism? Available [here](#).

<sup>35</sup> In order for a trade-related environmental measure to be eligible for an exception under Article XX, paragraphs (b) and (g), a

	<p>Yet the risk of a legal challenge should not be overstated. Whether another WTO member brings a challenge or not is ultimately a political decision, and cases can take years to conclude. The UK is also less likely to face a legal challenge if the CBAM has been developed alongside other international partners.<sup>36</sup></p>
<b>Provision of exemptions</b>	<p>Opponents of CBAMs have highlighted their propensity to discriminate against jurisdictions that neither have the means nor the wealth to develop low-carbon exports, emphasising the hypocrisy of rich nations ‘punishing’ developing countries for carbon emissions, whilst investing in their fossil fuel extraction.<sup>37</sup></p> <p>Aside from careful and considered use of CBAM revenues, one way to address this concern would be to provide CBAM exemptions for Least Developed Countries (LDCs) - as defined by the United Nations.<sup>38</sup> This is enabled under WTO law, which allows for developing countries to receive special and differential treatment. The UK makes use of these provisions to grant unilateral tariff and quota-free access to 46 least developed countries,<sup>39</sup> as well as applying a Generalised Scheme of Preferences to grant unilateral preferential access to the UK’s market to lower developed countries such as India, Indonesia, the Philippines and Pakistan.<sup>40</sup> The same justification could be used to exempt all least developed countries from a CBAM when exporting to jurisdictions that are covered by CBAM policy. Consideration should also be given to whether this exemption (or a CBAM reduction) should be extended to lower developed countries as well.</p>
<b>Consumer and business impacts</b>	<p>The distributional impact of any CBAM proposal would need to be carefully considered, as would the implications for input costs and administrative costs for business.<sup>41</sup></p>
<b>Substitution effects</b>	<p>As HMT’s Net Zero Review has outlined, if a country applying a CBAM accounts for a small share of an international market, rather than incentivising a reduction in carbon intensity in exporting countries, it may simply trigger substitution effects, with the most carbon intensive products redirected to alternative markets.</p> <p>If a country accounts for a large share of an international market then applying a CBAM will have different effects, which will tend to weaken the global effect of the mechanism. For example, a CBAM in a ‘large’ net-importer could lower world prices and stimulate increased global consumption and imports into alternative markets.<sup>42</sup></p>

member has to establish a connection between its stated environmental policy goals and the measure at issue. The measure needs to be either: necessary for the protection of human, animal or plant life or health (paragraph (b)) or relating to the conservation of exhaustible natural resources (paragraph (g)). From: World Trade Organisation GATT Exemptions. Available [here](#).

<sup>36</sup> Lowe, S (2021). Should the UK implement a Border Carbon Adjustment mechanism? Available [here](#).

<sup>37</sup> MIT Technology review (2020). Carbon border taxes are unjust. Available [here](#).

<sup>38</sup> United Nations (2020). List of least developed countries. Available [here](#).

<sup>39</sup> Lowe, S (2021). Should the UK implement a Border Carbon Adjustment mechanism? Available [here](#).

<sup>40</sup> HM Government (2020). Guidance on trading with developing nations. Available [here](#).

<sup>41</sup> HMT (2021). Net Zero Review. Available [here](#).

<sup>42</sup> HMT (2021). Net Zero Review. Available [here](#).

## **Question six: How might a CBAM interact with the UK's international obligations, including on trade and the environment?**

### **CBAMs can drive environmental progress at home and abroad**

A lot has rightly been made of the need for CBAMs to focus on environmental (rather than economic) outcomes<sup>43</sup> - not least in order to qualify for an environmental exemption under the WTO's General Agreement on Tariffs and Trade (GATT).<sup>44</sup> This is also true of how the revenue is used - with experts commenting that in order to comply with WTO laws, revenue from a CBAM must be put towards schemes that have similar objectives to the mechanism itself - i.e decarbonisation - rather than being used to address COVID-related deficits.<sup>45</sup>

The benefit of multilateral action on CBAMs is that they can help deliver on this environmental ambition, not just in terms of emissions covered (and therefore likely impacts on abatement), but also their increased scope to drive global ambition on emissions pricing. For example, the revenue from a CBAM could be used to help developing countries finance their transition to a zero-carbon economy.<sup>46</sup> In a UK context, a proportion of the revenue could be used to complement the Foreign, Commonwealth and Development Office's ongoing work to support climate mitigation and adaptation in developing countries, including export of carbon pricing expertise.<sup>47</sup> This is something that the EU are reportedly also considering; in response to concerns that the EU's CBAM is a protectionist measure - and to ensure WTO compatibility - a French Green MEP in charge of the European Parliament's report on the EU's CBAM revealed that part of the revenue will be allocated to finance low-carbon technology in developing countries.<sup>48</sup>

### **Other policies are required to ensure that unintended consequences are avoided**

As highlighted previously, a singular focus on carbon emissions (or 'emissions intensity') as a metric may in turn have alternative negative consequences, which must be accounted for in policy design alongside CBAM implementation.

This is a particular concern when it comes to assessing the environmental impacts of food production. As the WWF has highlighted<sup>49</sup> through their analysis of the Board of Trade's July 2021 *Green Trade* report<sup>50</sup> - the use of emissions intensity data alone to assess the environmental impact of livestock farming can lead to misleading conclusions, for example that the environmental standards of farming in the UK and Australia are similar, and that the environmental impacts of a UK-Australia trade deal would be minimal. By some measures, it is 'carbon-efficient' to grow livestock and poultry quickly and in very poor crowded conditions, which is why measures that focus solely on emissions intensity of production - such as CBAMs - must be accompanied by other policies that ensure emissions intensity is not prioritised over for example, animal welfare, biodiversity impacts and public health.

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<sup>43</sup> Ends Europe (2020). EU warned carbon border preparations 'started on wrong foot'. Available [here](#)

<sup>44</sup> In order for a trade-related environmental measure to be eligible for an exception under GATT Article XX, paragraphs (b) and (g), a member has to establish a connection between its stated environmental policy goals and the measure at issue. The measure needs to be either: necessary for the protection of human, animal or plant life or health (paragraph (b)) or relating to the conservation of exhaustible natural resources (paragraph (g)). From: World Trade Organisation GATT Exemptions. Available [here](#).

<sup>45</sup> Euractive (2020). Taxing times as EU mulls best way to price carbon at the border. Available [here](#).

<sup>46</sup> As Adair Turner has argued, 'there is a good argument for channeling the revenues from carbon tariffs to overseas aid programs designed to help developing countries finance their transition to a zero-carbon economy'. From Project Syndicate (2020). Available [here](#).

<sup>47</sup> For example, through initiatives such as the [Partnership for Market Implementation](#).

<sup>48</sup> Euractiv (2021). Poor countries in line to receive funds from EU carbon border levy. Available [here](#).

<sup>49</sup> WWF (August 2021). Briefing: Comparing the environmental impact of farming across countries for trade policy. Available [here](#).

<sup>50</sup> UK Board of Trade (July 2021). *Green Trade*. Available [here](#).

It is important to note here that a commitment towards maintaining equivalence of domestic environmental and animal welfare standards in trade deals would go some way towards mitigating potential adverse impacts.

It is the combination of these measures - carbon pricing mechanisms, product standards and outright bans - that can ensure that one environmental metric is not prioritised at the expense of another, and in doing so, ensure global progress towards addressing the climate and nature crises.

### **The case for UK leadership is clear**

In light of the UK's long history of leadership on carbon pricing, our Presidency over COP26, and our stated intent to take more responsibility for the UK's 'consumption emissions'<sup>51</sup> it makes sense for the UK to take the lead on multilateral negotiations relating to the implementations of CBAMs, including the underlying principles that will support them. If the UK fails to do so, they may risk being left behind as other countries move further and faster on carbon pricing and environmental ambition more broadly.<sup>52</sup>

As Sam Lowe has argued "With both the European and American CBAM discussions at an early stage, the UK should engage with, and attempt to shape the international CBAM debate now, rather than sit it out and risk being bounced into adopting a mechanism designed by others at a later date. If the EU and US do end up adopting a CBAM, and the UK does not, there is an additional risk that carbon-intensive products that would otherwise have been sold on the European and American markets end up being dumped onto the UK's."<sup>53</sup>

*October 2021*

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<sup>51</sup> Telegraph (2021). Carbon footprint of imported goods could be included in emissions target, minister says. Available [here](#).

<sup>52</sup> This is also true in regards to prospects for linking the UK ETS with the EU ETS - there is some concern that the UK will not demonstrate sufficient ambition to qualify for linkage, and might therefore be subject to (rather than play a role in implementing) the EU's CBAM.

<sup>53</sup> Lowe, S (2021). Should the UK implement a Border Carbon Adjustment mechanism? Available [here](#).