CBAM in reverse – positive incentives to reduce leakage

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Carbon Border Measures: Policies to Combat Leakage and Encourage Climate Ambition
Equity implications from CBAM

Transfer resources to richer countries
Can penalize those who struggle to be clean – rather than helping
  Incentives might not be the only barrier to mitigation

Solutions?
1. Could exclude poorest countries – but then still have problem of leakage and slow transition
2. Shift from penalties for emissions to rewards for emission reductions – at country/sector level
CBAM

Non-EU Emissions * $CBAM

EU Emissions * $EU-ETS

Non-EU MAC

EU MAC

leakage

$
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Creating Internationally tradable mitigation outcomes (ITMOs) from economy-wide transformation

- BAU
- Crediting baseline
- NDC
- Additional reductions in anticipation of funding from ITMO transfers
- Monitored emissions inventory – UN rules
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Credit / ITMO payment =

(National emissions – crediting baseline) * Price

If cement emissions fall, reward to country rises. Incentive to regulate.

Interaction with CBAM?
CAT – with domestic regulation

Non-EU Emissions * $CAT price

EU Emissions * $ EU-ETS