

How Carbon Border Adjustments Might Drive Global Climate Policy Momentum

IMF IEO Seminar Series. Driving Change: Policy,
Challenges, and Opportunities of the Energy Transition

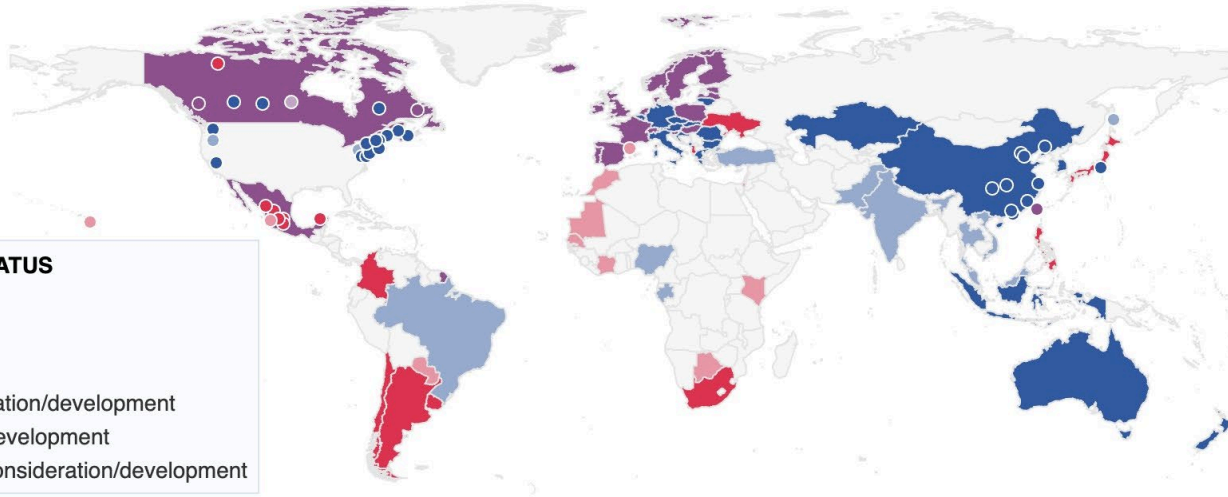
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Carbon pricing around the world

Compliance carbon pricing instruments around the world, 2024

Map shows jurisdictions with carbon taxes or emissions trading systems implemented, under development or under consideration, subject to any filters applied in the table below the map. The year can be adjusted using the slider below the map.



EU CBAM and a Virtuous Policy Cycle

Climate change: Prisoner's Dilemma

Rest of world
climate mitigation

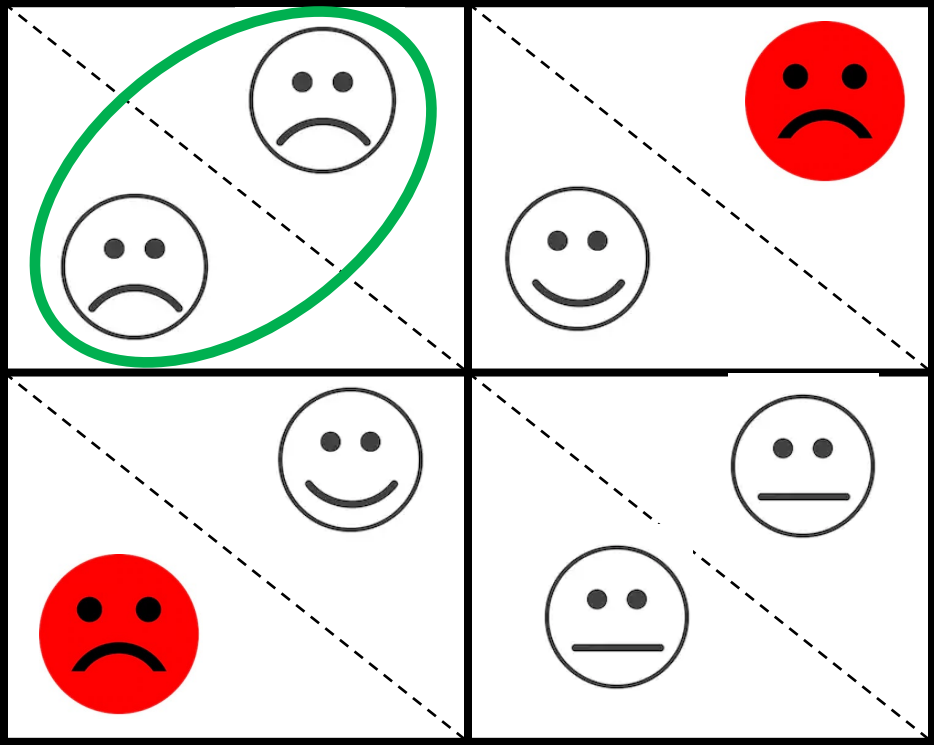
A little

A lot

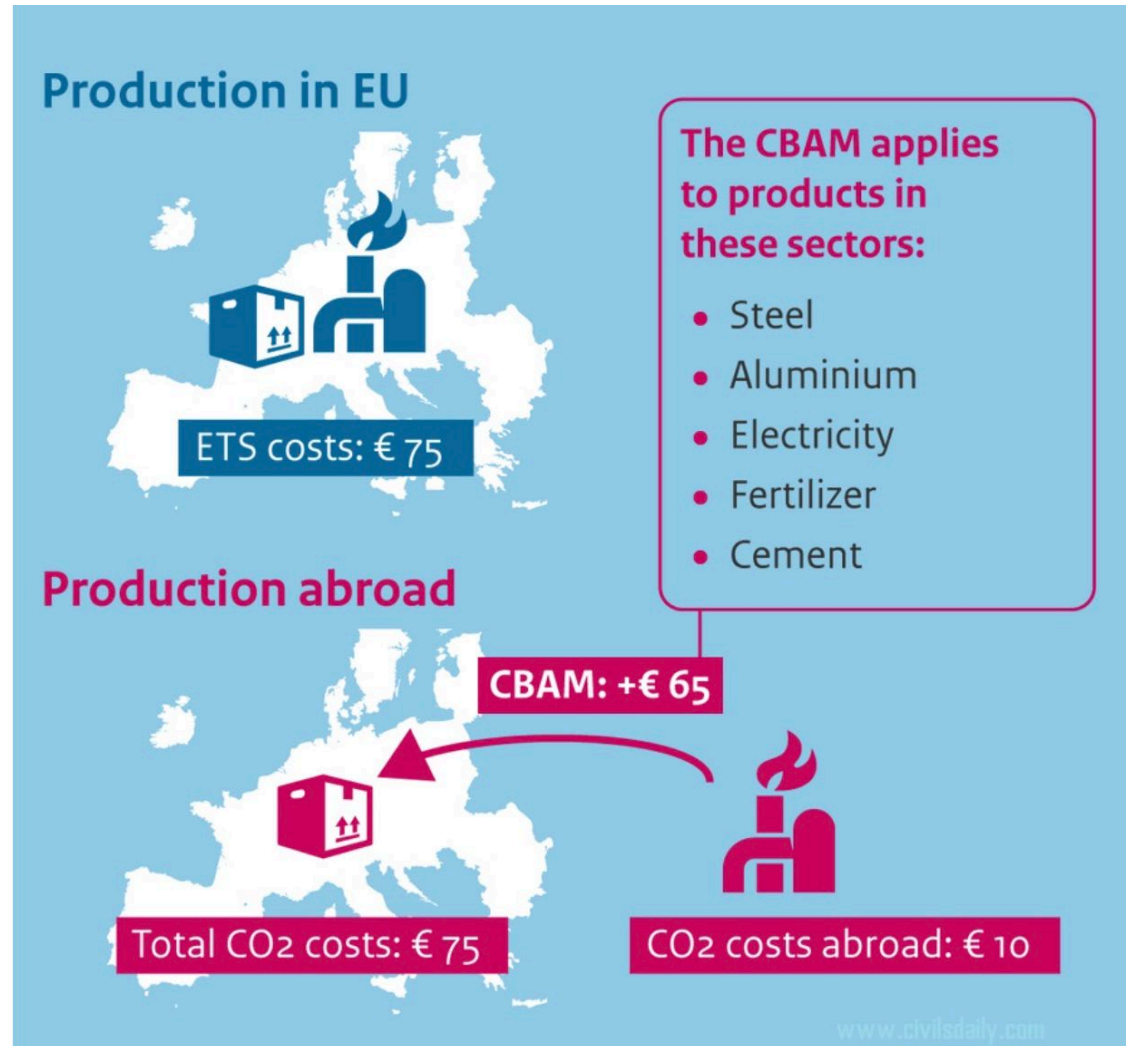
A little

U.S.
climate
mitigation

A lot



Enter the Carbon Border Adjustment Mechanism (CBAM)



With CBAM – cooperation can work!!

Rest of world
climate mitigation

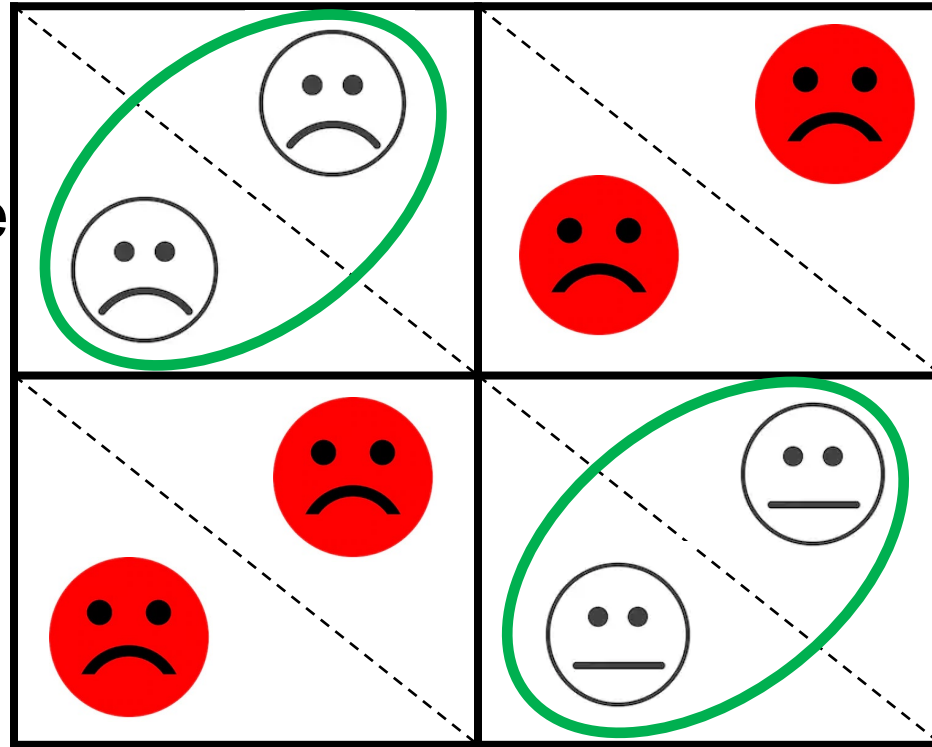
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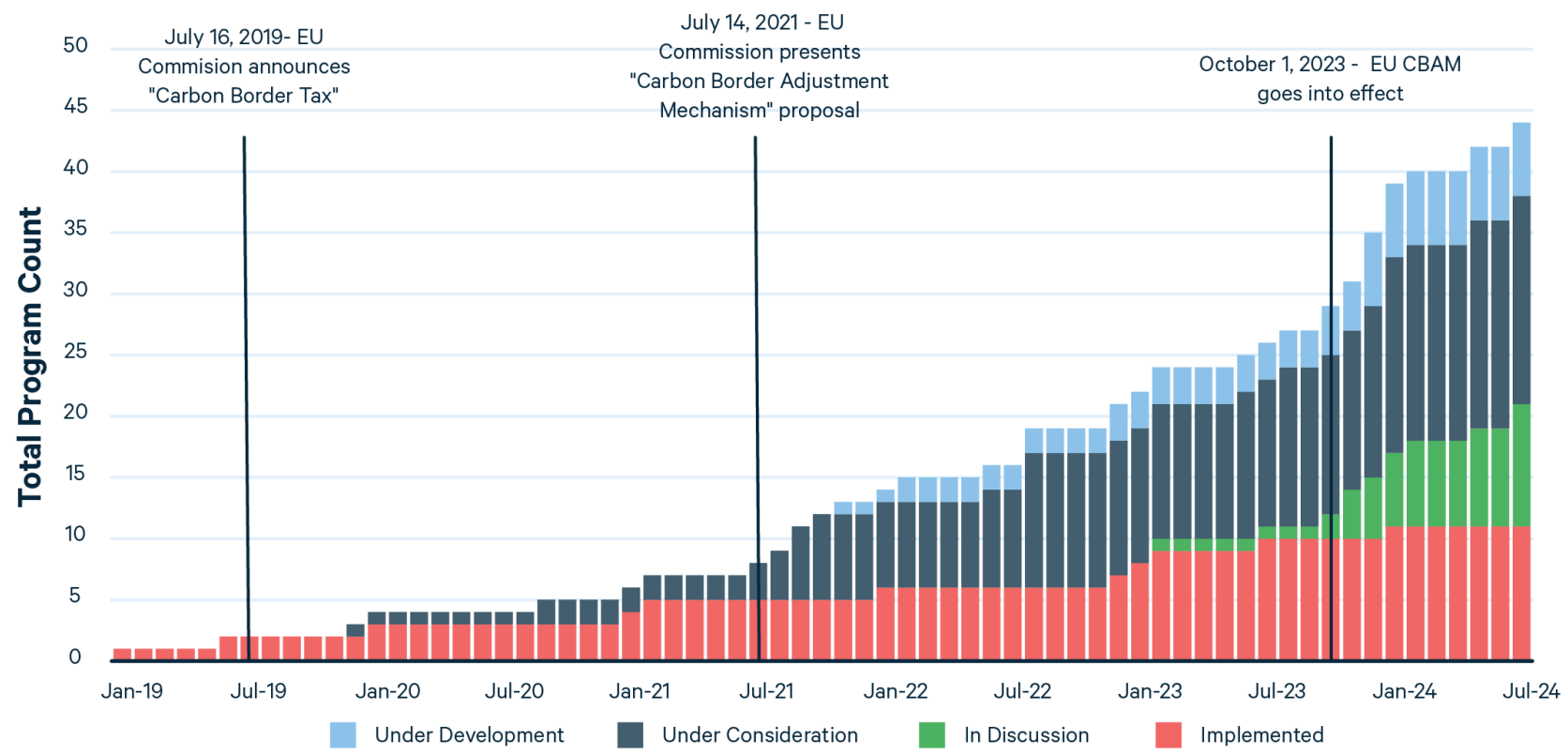
U.S.
climate
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A lot





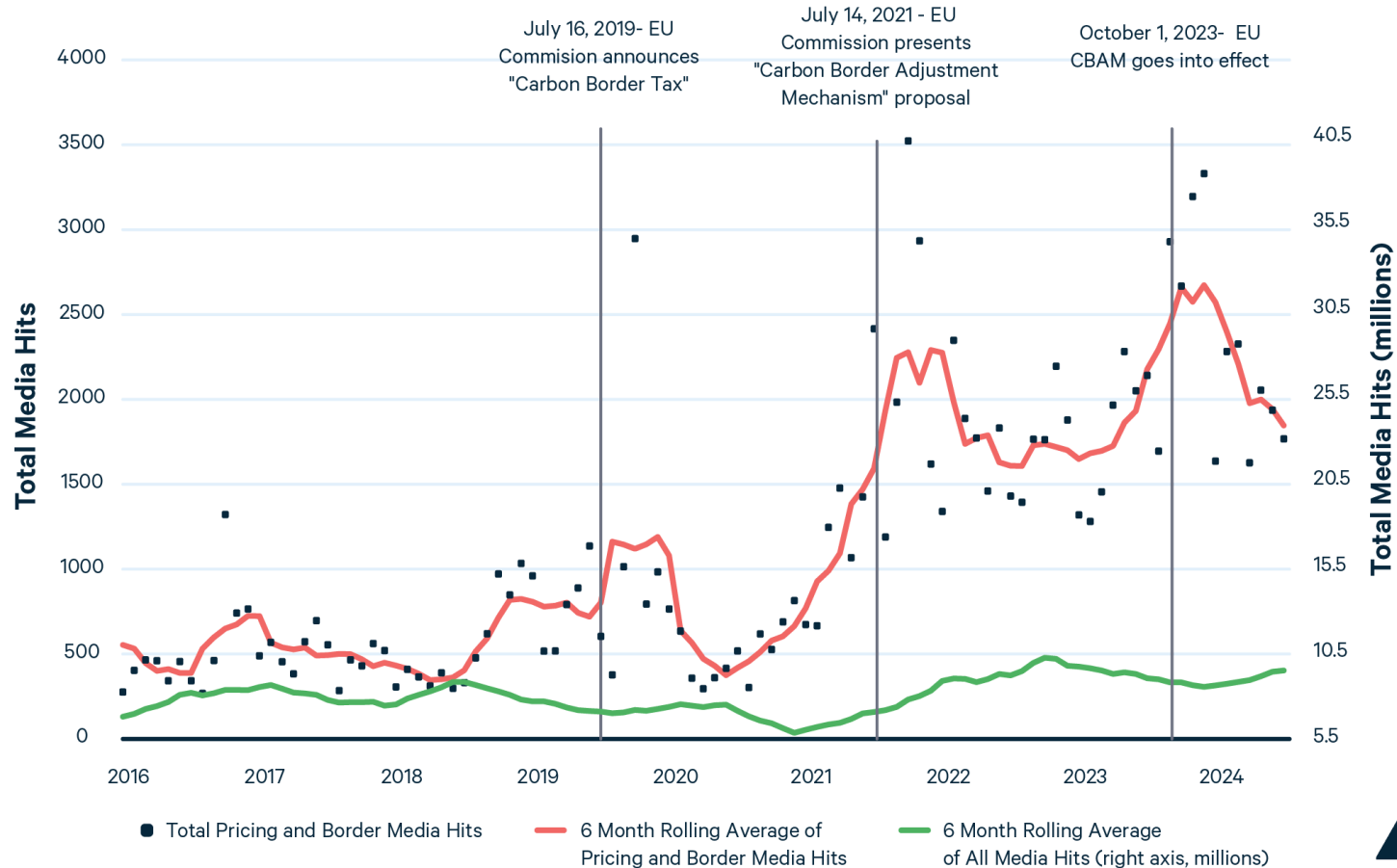
Policy action on carbon pricing is accelerating





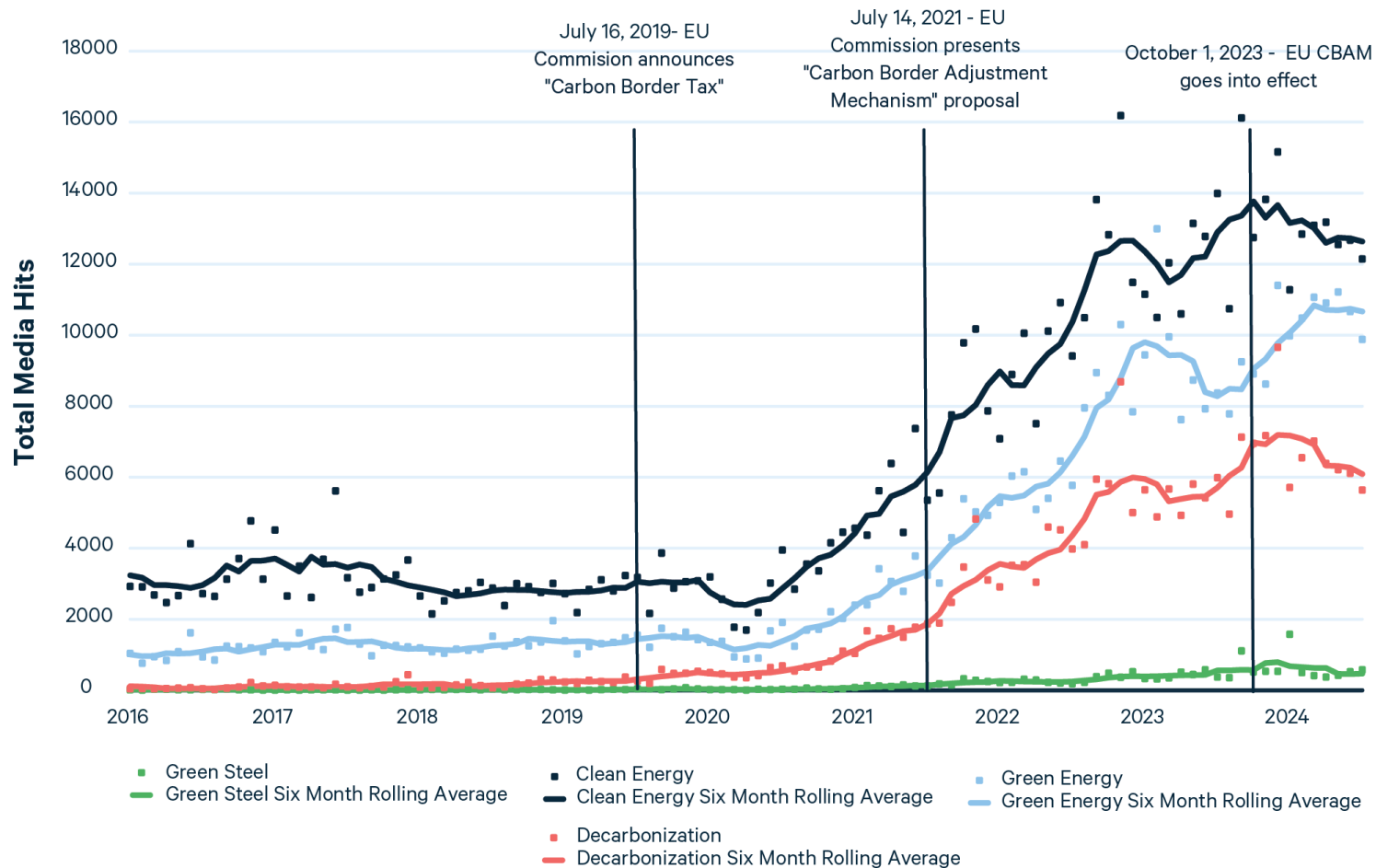
News mentions of carbon pricing are increasing

Non-US, no carbon price as of 2019

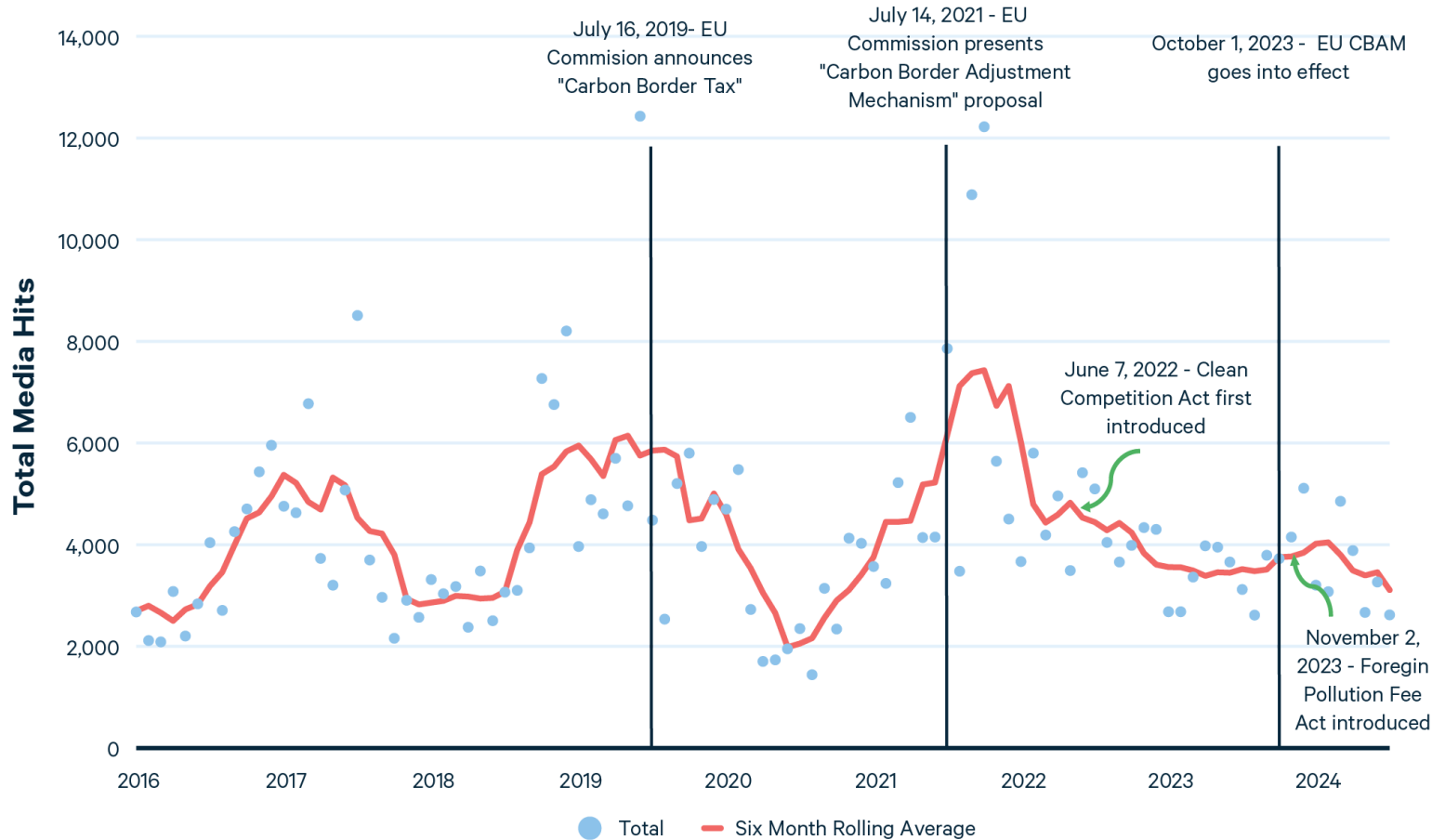




News mentions of decarbonization are increasing



News mentions of carbon pricing in U.S. are flat



CBAM Challenges



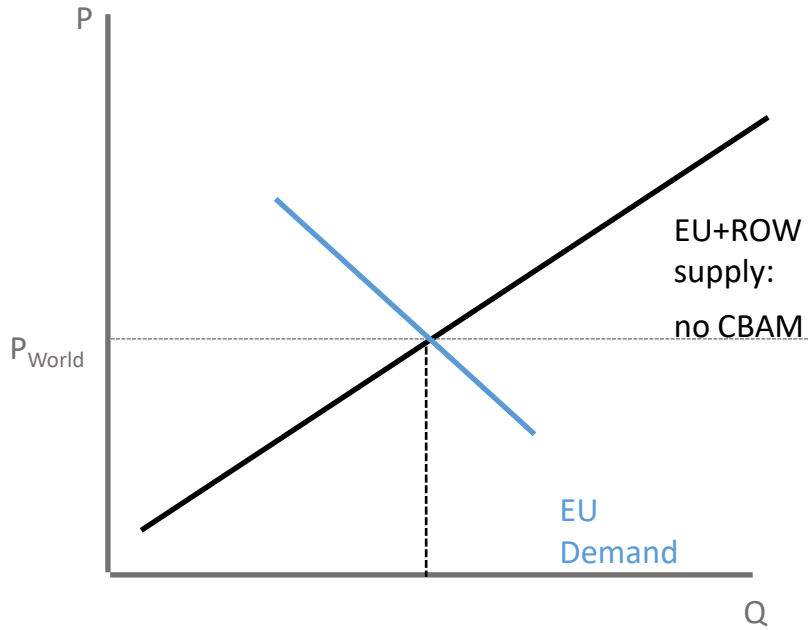
Concern about impact on LMICs

- The popular press emphasizes the fear that low- and middle-income countries will be negatively impacted by the EU CBAM
 - “India seeks UK carbon tax exemption in free trade deal talks”
– *The Guardian*, 4/19/2024
 - “Current EU carbon tax cannot be just: South Africa is challenging the CBAM policy before the World Trade Organization”
– *South African Times*, 11/10/2024
- Picked up in the NGO community
 - Center for Global Development (2022): “Mozambique, a large aluminum exporter, could experience a fall of 1.6 percent of its GDP as a result of a shift in demand following the introduction of the CBAM”
- Allegations of “regulatory colonialism”

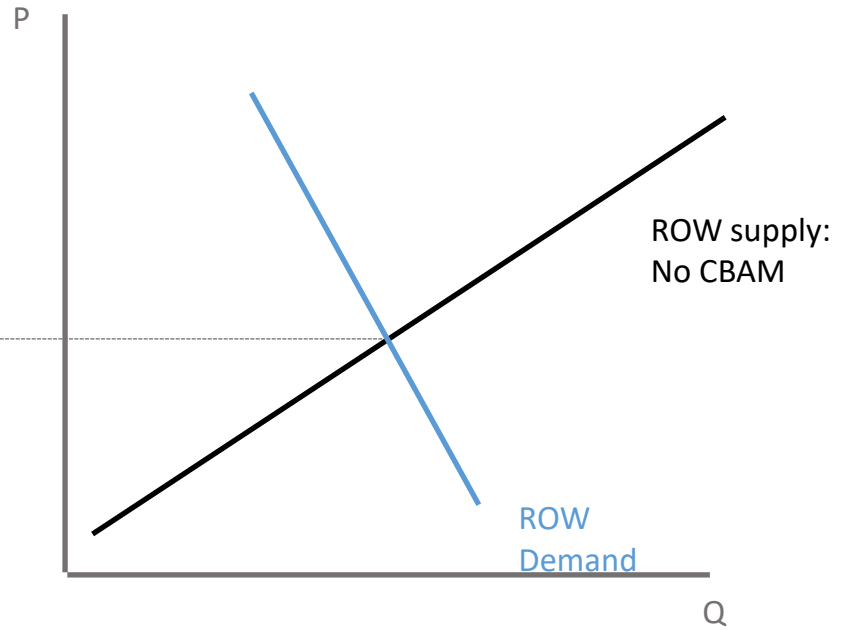


Steel & electricity are *not* more emissions intensive in low-income countries

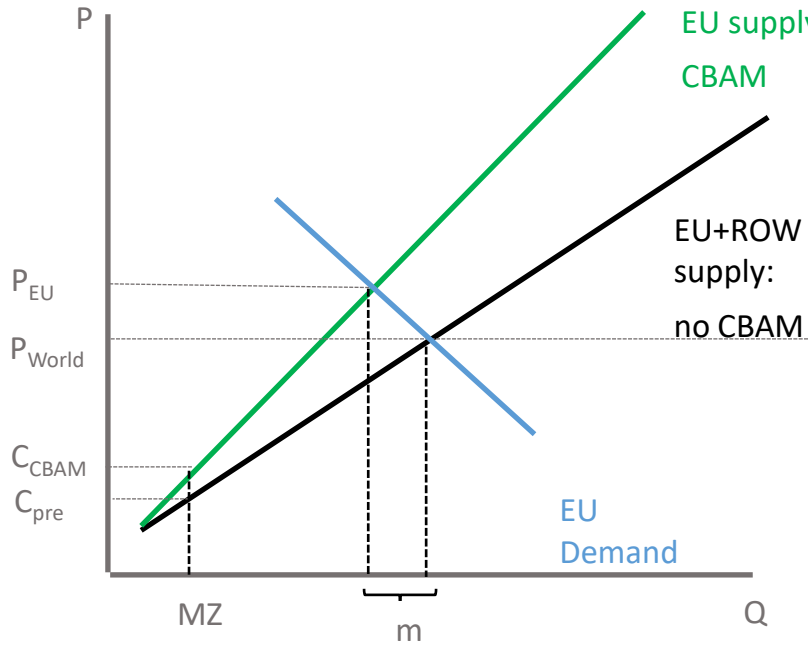
EU Market



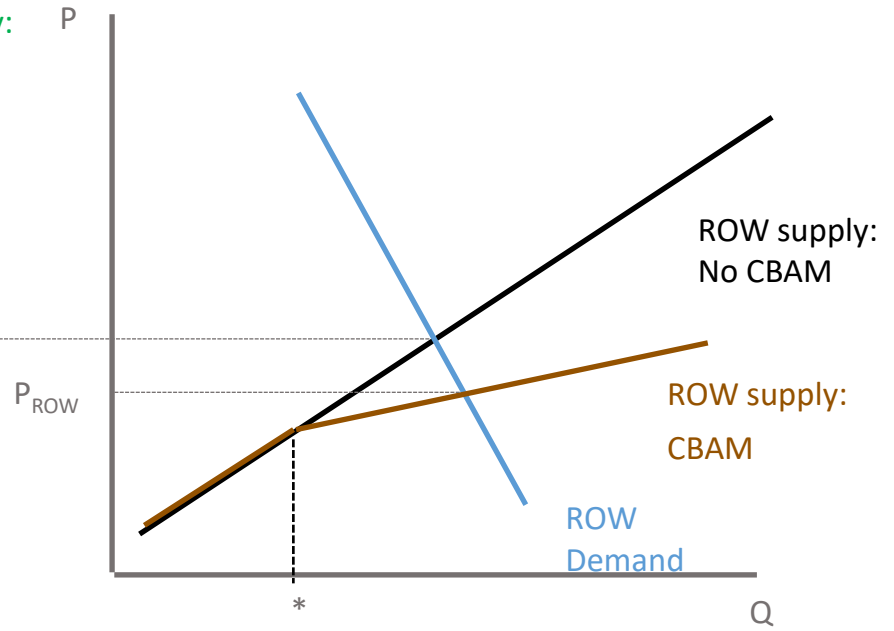
ROW Market



EU Market



ROW Market



Assume m capacity competitive after point $*$.

A Heavy Industry Climate Coalition?

- Graduated carbon pricing approach
 - IMF (Parry et al., 2021) proposed a global carbon pricing floor: \$25/ton for LICs, \$50/ton for MICs, \$75/ton for HICs
 - Exemption from CBAM proportional to graduated price
 - Only relevant for certain sectors (aluminum, steel, cement, fertilizer)
- Additional dials
 - Could phase out graduated prices over time
 - Could implement graduated price via free allowances, and could adjust rate of phase out
- Carrots
 - Tech transfer and pilot clean projects
 - Market access

Thank you!

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