On The Borderline:
The EU CBAM and its place in the world of trade

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Economic and environmental impacts (by 2050)
(50% assumption electricity imports; revenue recycling)

CBAM cost

Import price increase towards EU members
+6.5%

Imports decrease from outside EU
-2.2%

Exports to EU decrease
0%

Lower production outside of EU

Lower GDP outside of EU (emitters)
0%

Lower emission levels (higher intensity)
-12.0 Mt

GDP within EU increases
+0.4%

Investment within EU increases
+0.9%

Production within EU increases
+1.1%

Higher within EU emission levels (lower intensity)
+2.1 Mt

Lower emission levels globally
-9.9 Mt

EU

Outside EU

Global

Note: prices, trade, production and investment for impacted sectors; GDP and emissions for whole economy. 51, 50% electricity, revenue recycling
Political and diplomatic considerations

• One part of a bigger political agenda of the EU Green Deal

• Negotiations between the Council, Parliament and the Commission

• Final proposal shaped by the EU political economy – and possibly foreign pressures – and will likely to look very different to the current one

• Member State views still being formed – diverse, subject to change and even internally divided (e.g. producers v users of materials)

• Options available to third countries: retaliation, negotiation, litigation against the EU - may be explored simultaneously, unilaterally or multilaterally

• Current relationship with the EU and country level factors (such as presence / absence of ETS or carbon price) will influence responses
  → heavy reliance on the EU markets coupled with low likelihood of an exemption increases the likelihood of aggressive response
Conclusions

- WTO dispute likely, but not necessarily successful.
- CBAM can be brought into compliance without retrospective penalties.
- Risk of retaliation, market distortions and loss of reputation are greater than the risk of litigation.
- Standardised mechanisms to measure carbon content → could enable other climate policies (esp demand side)
- EU CBAM may be necessary to ensure domestic support for climate policy AND for the EU to achieve its 2050 target.
- A well-designed EU CBAM could incentivise trade partners to implement more ambitious climate policies, removing the need for it.
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Thank you!

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