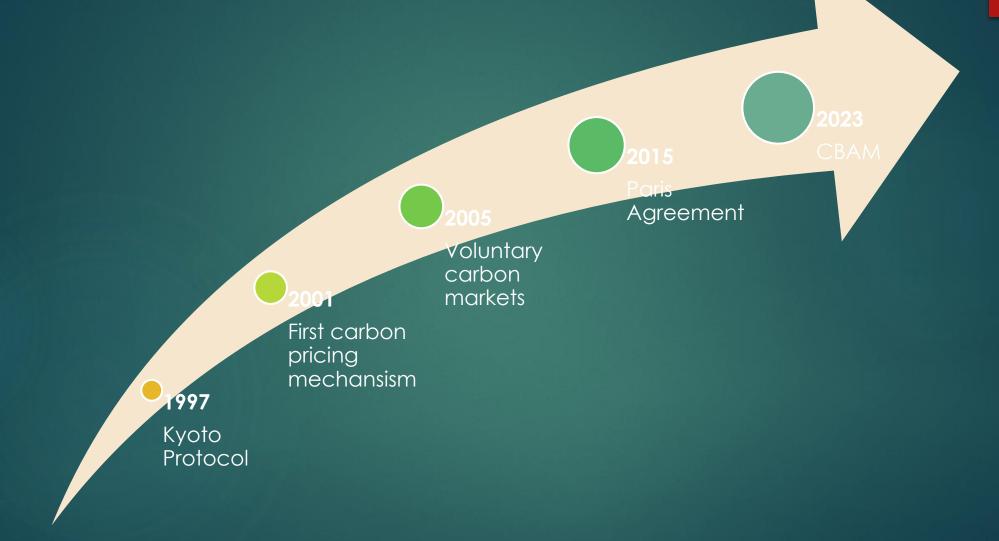
#### Climate and Trade: Unlocking Solutions through International Trade Eduardo Piquero

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# The road to CBAM



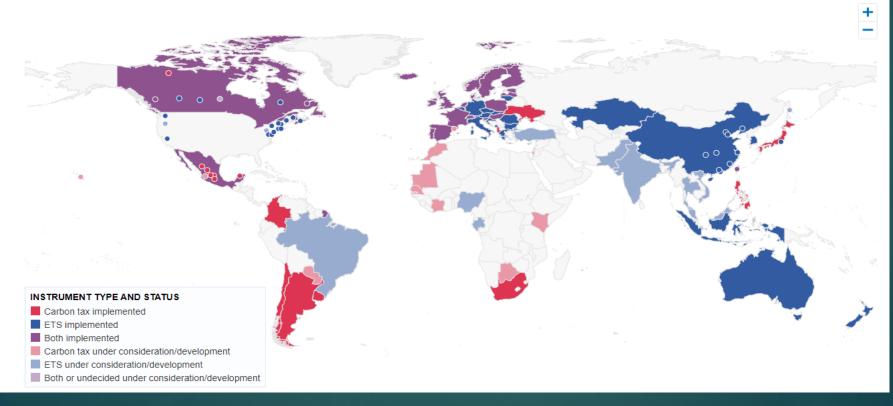
# Carbon pricing around the world



#### Compliance carbon pricing instruments around the world, 2024

■ Download

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.



## **Revenues** collected

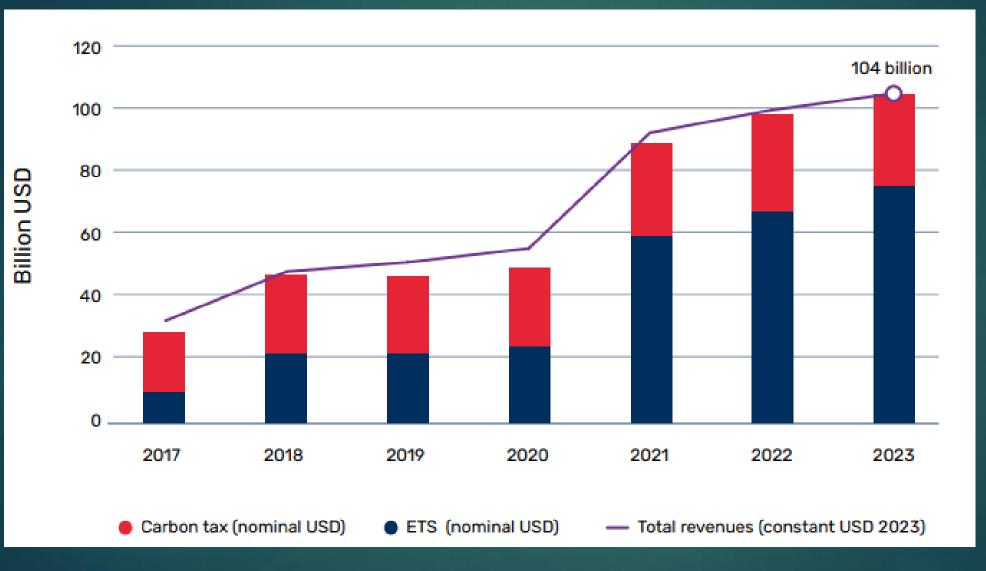


IMAGE SOURCE: World Bank States and Trends of Carbon Pricing 2024

# What is CBAM?

- The Carbon Border Adjustment Mechanism (CBAM) is designed by the European Union to prevent carbon leakage. By placing a carbon price on imports of certain high-emission goods, CBAM ensures that foreign producers face similar carbon costs as their European counterparts. This policy aims to:
- Protect the European industry by preventing carbon leakage.
- Encourage global climate action.
- Encourage technological innovation.
- CBAM applies to imports of goods that are at risk of causing carbon leakage due to their high carbon intensity. Initially, CBAM targets sectors such as cement, iron and steel, aluminum, fertilizers, electricity and hydrogen. Key elements of the mechanism include:
- Carbon pricing: importers must purchase CBAM certificates equivalent to the carbon emissions embedded in their products.
- **Benchmarking:** The European Union establishes benchmarks for carbon intensity, which importers must meet to avoid excessive costs.
- Reporting GHG emissions

# What is CBAM?

There are +11K manufacturing facilities covered EU that are subject to the European Trading System ('EU ETS'). The objective of CBAM is to address the risk of 'carbon leakage', which could occur if the greenhouse gas emissions reductions achieved within the EU under the EU ETS were to be nullified Purpose by covered operators shifting their operations to jurisdictions outside the scope of the EU ETS.



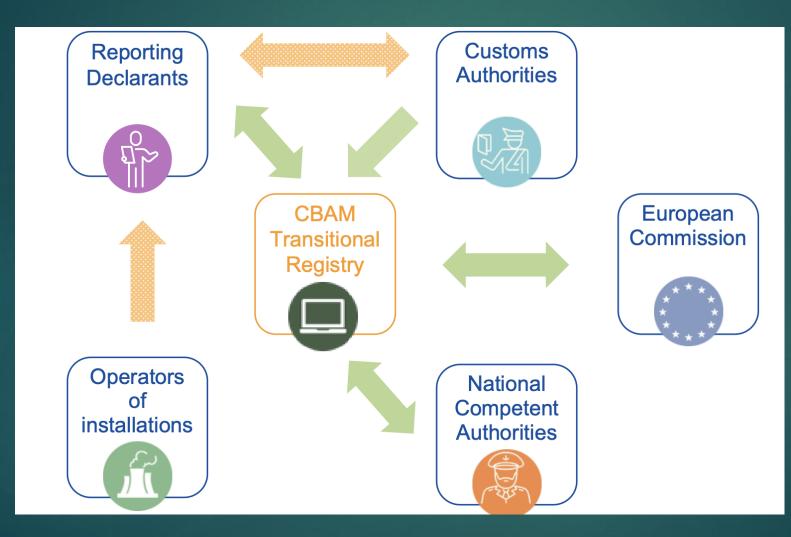
- Importers of select raw materials into the EU must report and account the carbon emissions embedded in their imports.
- Products: aluminium, cement, hydrogen, electricity, fertilisers, iron and steel.
- Transitional Phase: CBAM becomes operational on 1 October 2023.
- Reporting emissions of imports, for each type of good, each quarter.
- Financial Phase: CBAM becomes operational in 2026.
- In addition to reporting obligations, purchase and submint of CBAM certificates on an annual basis and data verification.
- The price of the CBAM certificates will be equal to the carbon price set by the EU-ETS.
- The price of CBAM certificates will fluctuate and be published by the EU Commission
  on a weekly basis

## Players in CBAM



► Source: EU Commission

# The CBAM Transitional Registry



#### Key highlights

- Single platform to create synergies
- Tool to perform CBAMrelated tasks
- Secured platform to ensure confidentiality of information
- Customs authorities transmit data on imported goods to the Commission via the Transitional Registry. They inform reporting declarants of their obligations outside of the Registry

# **Global Impact of CBAM**

- **Trade dynamics:** CBAM may affect trade flows to the European Union by increasing the cost of carbonintensive imports. Countries heavily reliant on exporting these goods may face reduced demand or higher costs to enter the economic block.
- **Competitive advantage**: firms in non-EU countries with higher carbon footprints may struggle to compete with European companies that benefit from stricter domestic climate policies.
- Investment flows: CBAM may incentivize investment in low-carbon technologies and cleaner production processes globally.
- CBAM aims to enhance global environmental standards to tackle climate change by:
- Encouraging cleaner production: the mechanism motivates firms worldwide to adopt greener technologies to avoid additional costs.
- Supporting global climate goals by promoting emission reductions, CBAM supports international climate agreements such as the Paris Agreement and the adoption of carbon pricing worldwide.

## **CBAM** and Lesotho



- Lesotho has a predominantly agricultural economy. Lesotho's main customers are South Africa (37.4%), the United States (28.1%), Belgium (18.9%), United Arab Emirates (6.3%), and the United Kingdom (2.8%) (WTO 2022). Key economic sectors include:
- Agriculture: Agriculture is still the main source of income for many Basotho, contributing significantly to the country's GDP. Lesotho's agricultural exports may be affected by changes in global trade dynamics resulting from CBAM. While agriculture is less carbon-intensive, the broader economic effects may influence the sector.
- **Manufacturing**: Lesotho has a growing manufacturing sector, including textiles and apparel. Lesotho's textile industry, which is a significant source of employment and export revenue, may face challenges due to CBAM. The cost of compliance and competition with EU producers could impact the industry.
- **Mining**: The country has some mining activities, although they are not as extensive as in other African nations. Lesotho's mining sector may also be affected by CBAM if future expansions or changes in production practices increase carbon intensity.

## **CBAM** and Lesotho

Policy Recommendations for Lesotho under CBAM:

- Developing climate strategies: Lesotho should enhance its national climate policies to align with European requirements and reduce vulnerability to CBAM.
- Investing in green technology: promoting green technologies in key sectors can help Lesotho maintain competitiveness and adapt to global market changes.
- **Diversifying economic activities**: reducing reliance on carbon-intensive sectors and investing in sustainable industries can help mitigate the impacts of CBAM.
- Capacity building!



#### Other carbon border proposals

- **The UK** became the first country to replicate the EU regulation in 2023.
- USA: the Clean Competition Act would impose a carbon border adjustment on energy intensive imports, while incentivizing decarbonization of domestic manufacturing.
- China, as the world's largest emitter of greenhouse gases, has been contemplating its approach to carbon pricing and adjustments. While not officially implementing a CBAM yet, there have been discussions about introducing mechanisms to manage the carbon footprint of imports.
- Australia, Canada, Japan, South Korea are considering similar regulation.

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Thank you! Eduardo Piquero email: <u>eduardop@mexico2.com.mx</u>