

RIFS-Blogpost

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Workshop

Carbon Footprint Policies and International Equity and Cooperation

In a world connected by global supply chains, states are hesitant to pursue ambitious industrial decarbonization policies, fearing that strict regulations or high carbon prices could make industries less competitive or that consumers might switch to cheaper products from countries with lax regulation. But there is a solution: Policies that do not just target the emissions that occur within the confines of national or EU borders but that also cover emissions that have accumulated throughout supply chains. Carbon footprint policies target the upstream supply chain emissions that occur throughout the various stages of production.

While border carbon adjustments have received a lot of attention, less research has been conducted on regulatory maximum thresholds for lifecycle carbon emissions for products and on taxation classes based on lifecycle emissions. On 15 March 2024, I led a workshop in Geneva with the aim of comparing the four policy types in terms of their implications for international equity, collaboration, and conflict. The workshop brought together experts from academia, civil society and international organisations: the Advisory Centre on WTO Law, Climate Strategies, the École Polytechnique Fédérale de Lausanne, Friedrich-Ebert-Stiftung, the Institute for European Environmental Policy, RIFS, University College London, the United Nations Conference on Trade and Development, the United Nations Development Programme, the South Centre and the World Trade Institute.

Although the workshop sought to compare the different policy types, discussions tended to focus on carbon border adjustment mechanisms, such as the European Union's CBAM, where the participants' expertise was strongest. Nevertheless, the workshop kicked off a process of examining the other policy options and helped participants gain a better understanding of the whole spectrum of carbon footprint policies.

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Most attention in this space has been hogged by price-based policies such as the European Union's Carbon Border Adjustment Mechanism (CBAM). While the introduction of the CBAM is a significant step in the right direction, it is a particular policy instrument with specific strengths and weaknesses – not the only carbon footprint policy available. To accelerate the decarbonisation of globally traded goods, all policy options need to be on the table and thoroughly assessed in terms of their implications for international equity and cooperation.

Next to border carbon adjustments (BCAs), there are other carbon footprint policy instruments available, such as carbon-specific tariff walls, regulatory maximum carbon thresholds for products, and taxation classes based on lifecycle emissions. Border carbon adjustments typically impose taxes, tariffs or the obligation to purchase emissions permits on imports based on their carbon content, aiming to level the playing field by making sure that domestic and imported products are subject to the same carbon price. Threshold-specific tariff walls such as those floated as part of the negotiations on the Global Arrangement on Sustainable Steel and Aluminum (GASSA) use pricing in the form of tariffs. On the other hand, regulatory maximum carbon thresholds set a clear limit on the embodied carbon content of products, such as buildings or batteries, irrespective of origin. Such upper limits amount to bans of products with a particular high embodied or lifecycle carbon content. In addition to this, vehicle taxation schemes could be geared to target lifecycle emissions rather than being based on measures such as horse power or weight.

Carbon footprint policies have the potential to remove major hurdles to greater climate policy ambition. They will also likely lead to cross-border incentives for emissions reductions. However, the cross-border impacts of these policies also have significant international equity and justice implications that make them relevant to the just transitions debate. In addition, such cross-border measures run the risk of being perceived as protectionist and intrusive, potentially provoking international opposition. This concern has become more pronounced against the backdrop of current discussions about a potential fracturing of the international trade system.

In order to wield cross-border measures effectively, states will need to consider multiple – often divergent – perspectives, optimize their sequencing within the wider policy mix, and ensure their international legitimacy. However, the pace of action also matters and waiting for the perfect constellation comes with its own risks.