



Bridging the Divide: Assessing the Viability of International Cooperation on Border Carbon Adjustments

Michael Mehling, Harro van Asselt, Susanne Droege, Kasturi Das, and Catherine Hall

Cooperation at the intersection of climate change and international trade is intensifying, as highlighted by numerous initiatives recently launched at the multilateral, plurilateral, and bilateral levels. Yet many of these initiatives eschew one of the most contested issues at the climate and trade nexus: border carbon adjustments (BCAs). With several jurisdictions currently pursuing their own BCA designs and implementation strategies, however, comes the risk of uncoordinated proliferation of divergent approaches, which in turn can translate into greater uncertainty, higher transaction costs, and negative repercussions for international climate and trade diplomacy. A new Working Paper argues the case for international cooperation on BCAs, and assesses the prospects for such cooperation in three existing fora: the G7 Climate Club, the Global Arrangement on Sustainable Steel and Aluminium (GASSA), and the Inclusive Forum on Carbon Mitigation Approaches (IFCMA).

Trade-Climate Cooperation at the Crossroads

Recent years have witnessed the emergence of a broad range of multilateral, plurilateral and bilateral cooperative initiatives at the intersection of international trade and climate change. An encouraging trend, this proliferation reflects increasing awareness of the interconnected nature of international trade and climate change. About a quarter of global carbon dioxide emissions are embedded in the international trade of goods and services, and trade policy can also play a significant role in supporting countries in their efforts to decarbonize and adapt to the impacts of climate change.

Still, these developments are taking place against the wider backdrop of an equally dramatic pivot towards nationalist retrenchment, spurred by populist domestic politics, growing geopolitical tensions, and widespread disenchantment

with the unintended effects of globalization on national economies. In response, jurisdictions are increasingly taking recourse to protectionist trade and industrial policies. Many of the protectionist tendencies that underlie the current dynamic of economic retrenchment and fragmentation are mediated by policy strategies that invoke climate ambition and deep decarbonization as both a justification and a central objective, the most contested among them arguably being border carbon adjustments (BCAs).

Border Carbon Adjustments and their Discontents

In a world characterized by unequal carbon constraints, jurisdictions with more stringent climate constraints face the risk of carbon leakage. BCAs have long been discussed as a concrete measure to help address this problem. Still, BCAs can also be adopted for a variety of other reasons, including as a safeguard of the international competitiveness

of domestic industries, and to induce trade partners to ramp up their own climate mitigation efforts.

So far, BCAs have proven to be the most controversial measure at the intersection of international trade and climate policy. Reasons include their alleged advancement of “green protectionism” and their potential economic and social impacts on trade partners, particularly those from the Global South that are least responsible for the climate crisis, thereby raising complex normative questions about climate justice and equity.

The EU’s Carbon Border Adjustment Mechanism (CBAM) has brought these debates to the forefront of the climate-trade policy discourse. However, the EU CBAM is unlikely to be the last or only BCA, with various jurisdictions contemplating similar measures as they adopt increasingly ambitious climate mitigation policies and pursue other policy objectives, such as improved national security or industrial policy strategies. This broader trend highlights the growing risks associated with uncoordinated proliferation of unilaterally implemented BCAs that reflect divergent approaches to design and implementation, which in turn can translate into greater uncertainty, higher transaction and administrative costs, as well as detrimental impacts on international trade and global efforts to tackle climate change and its impacts.

A new CEEPR Working Paper makes the case for international cooperation on or relating to BCAs and assesses the prospects for such cooperation. The report applies an analytical framework that examines both the “input legitimacy” and “output legitimacy” of international cooperative initiatives. It applies this analytical framework to three emerging models of cooperation relating to BCAs, namely the G7 Climate Club, the transatlantic talks on a Global Arrangement on Sustainable Steel and Aluminium (GASSA), and the Inclusive Forum on Carbon Mitigation Approaches (IFCMA) launched by the Organisation for Economic Co-operation and Development (OECD).

Rationales for International Cooperation on BCAs

International cooperation is not only one of the core principles

underpinning the international legal order, including the international climate and trade regimes, but it can also help address some of the adverse impacts potentially associated with BCAs, including the perception of “green protectionism” and risks of tit-for-tat trade retaliation.

International cooperation could further ensure that BCAs become part of broader diplomatic efforts on climate change, taking into account, among other things, the interests and priorities of countries in the Global South that would be adversely affected by BCA implementation. Besides, international cooperation could reduce the risk of exacerbating fragmentation and trade barriers in the global order through the emergence of multiple BCAs, each with their own procedures and requirements.

By targeting traded products, BCAs inherently have an external dimension. In the concrete design of BCAs, potential spillover effects are largely determined by provisions on the geographic scope (i.e., the extent to which countries are exempted), the calculation of the adjustment (e.g., whether and what kind of mitigation policies in third countries are credited), the determination of embedded emissions (e.g., whether based on actual emissions or some kind of default values), and the use of revenues (e.g., whether BCA revenues are recycled back to the affected trading partners). The fact that existing or proposed BCAs differ widely in how they deal with such external dimensions underscores the potential benefits of international cooperation, and highlights ways in which the external dimension of BCAs could promote or facilitate such cooperation.

Analytical Framework

In the Working Paper, two core features of international cooperation are analyzed, namely its inclusiveness and institutional strength, both of which can be linked to an initiative’s “input legitimacy” (i.e. the quality of the process through which decisions are made).

The rationale for international cooperation points to different goals that can be pursued with international cooperation on BCAs. In the Working Paper, the authors identify five possible goals, which provide the prism through which to



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assess the “output legitimacy” of any initiative of international cooperation on BCAs (i.e., how effective it is in achieving certain goals). The five goals identified are:

1. promoting transparency (i.e., sharing information on the design, implementation and effects of BCAs);
2. developing objectives and principles for BCAs (i.e., identifying best practices that could guide future design and implementation);
3. improving comparability by developing methodologies that allow for the comparison of different types of mitigation policies and their effects;
4. promoting harmonization with a view to developing product or MRV standards; and
5. broadly contributing to global climate ambition, by either strengthening domestic or third-country climate policies.

For each of the three initiatives under study, namely the G7 Climate Club, GASSA and IFCMA, the Working Paper discusses the extent to which it can be considered inclusive, as well as its underlying institutional strength based on publicly available documents. In addition, the Working Paper also assesses the propensity of these initiatives to contribute to one or more of the five goals identified in this report.

G7 Climate Club

In 2021, the German G7 presidency called on G7 members to introduce a price on carbon and develop a system with a common BCA over time. However, it quickly became clear that a the prospect of joint carbon price among the G7 members would not secure backing by all members. After extensive negotiations among G7 members, a “Climate Club” was announced in December 2022 and officially launched during the United Nations Climate Conference in Dubai in December 2023, with an interim Secretariat to be hosted by the OECD and the International Energy Agency (IEA). The terms of reference of the initiative list three pillars of cooperation: (1) advancing ambitious and transparent climate change mitigation policies; (2) transforming industries; and (3) boosting international

climate cooperation and partnerships.

The G7 Climate Club fares well in terms of inclusiveness, as notwithstanding its origins it is in principle open to all countries, and has indeed seen its membership grow to 37 countries from the developed and developing world. As for its institutional strength, the initiative is not aimed at setting standards, and its future is contingent upon the support of subsequent G7 presidencies.

As far as its contribution to the foregoing goals of international cooperation on BCAs is concerned, its performance is mixed. As the Climate Club does not cooperate on BCAs directly, it may at best contribute toward increasing transparency indirectly through the progress made under the IFCMA, which aims to develop a comprehensive database of different policy approaches and accounting methodologies. This would then inform the Climate Club in case BCAs are included in its work program following future elaboration of its scope and mandate. As for improving comparability, members of the Climate Club signed up to engage in the advancement of comparable methodologies to measure, estimate and collect emissions data, for which again they will rely on the IFCMA. The Climate Club focuses on climate ambition, industrial decarbonization, and voluntary cooperation with developing countries, which can potentially contribute to global climate action, depending on the political priorities of the G7 presidency. Neither the development of shared objectives and principles for BCAs nor promoting harmonization are within the terms of reference of the G7 Climate Club, however.

Global Arrangement on Sustainable Steel and Aluminum (GASSA)

The origins of the GASSA can be traced back to tariffs imposed by the U.S. Administration in 2018, which included tariffs of 25% on steel and 10% on aluminum. In response to these tariffs, the EU retaliated with tariffs on other products. The U.S. tariffs were subsequently challenged at the World Trade Organization (WTO) by both the EU and China. In 2021, with a new U.S. Administration in place, the U.S. and the EU issued a joint statement on steel and aluminium, wherein the EU agreed to suspend its WTO challenge and



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remove its tariffs while the U.S. introduced a Tariff Rate Quota under which a limited amount of steel from the EU could enter the U.S. market free of duties. The deal also marked the launch of negotiations on a Global Arrangement on Sustainable Steel and Aluminium, with an aim to conclude these negotiations within two years. Negotiations have since entered into a stalemate, however, due to multiple differences in approaches, priorities and domestic political dynamics.

The GASSA aims to address two separate, but related issues, namely what is referred to as “non-market excess capacity”, which is an implicit reference to China’s heavy subsidization of its steel industry, and the carbon intensity of steel and aluminium production.

In terms of inclusiveness, although the GASSA would be open to “like-minded economies”, it is by design envisioned as a forum that excludes China, thereby raising questions about its ability to be truly inclusive. As far as its institutional strength is concerned, the GASSA precludes an assessment since the institutional structure has yet to be agreed.

In terms of its contribution to the five identified goals of international cooperation on BCAs, the GASSA performs rather poorly. It is unlikely to serve as a forum for sharing BCA design and implementation information, and hence unlikely to contribute to increasing transparency about BCAs. It is also unlikely to serve as a forum for developing shared objectives and principles for BCAs; or for improving comparability of individual mitigation policies. Although the technical discussion on methodologies could potentially lead to shared understanding on low-carbon intensity standards in steel and aluminum sectors, promoting such harmonization is going to be challenging. In terms of its potential to contribute to global climate ambition, the role of the GASSA is unclear.

Inclusive Forum on Carbon Mitigation Approaches (IFCMA)

In June 2022, the OECD formally launched a new initiative known as the Inclusive Forum on Carbon Mitigation Approaches. The overall objective of the forum is to help

enhance the impact of emission reductions efforts globally, through “data and information sharing, evidence-based mutual learning and inclusive multilateral dialogue”. Under the auspices of the IFCMA, technical work will be carried out to assess a diverse range of both price-based and non-price-based policy instruments that have been implemented by countries across the world, through the development and application of a consistent methodology. Importantly, however, the IFCMA does not have cooperation around BCAs as its focus.

In terms of inclusiveness, as it seeks to attract a range of participants that includes both OECD member countries and non-member countries, it scores reasonably well. However, it remains to be seen whether and to what extent OECD member countries determine the direction of the initiative. With respect to institutional strength, it again fares relatively well, as it is hosted by a permanent body, namely the OECD. However, while the OECD generally has the ability to set standards and adopt legally binding decisions through the OECD Council, that is not necessarily the case for the IFCMA, which is explicitly intended to not act as a standard-setting body.

As far as its contribution to the five identified goals of international cooperation on BCAs is concerned, again the IFCMA fares reasonably well. Although the Forum is not focused on increasing transparency around BCAs as such, its remit – which includes taking stock of mitigation policy instruments (and policy packages) and their effects on emissions – is sufficiently broad to include a discussion of BCAs as part of mitigation policy packages. Its work related to data collection and analysis can also help jurisdictions determine whether and to what extent they should credit policy efforts in third countries when designing and implementing BCAs, for instance through bilateral agreements. One of the main areas in which the IFCMA can make a truly meaningful contribution is improved comparability, specifically through the methodologies that it will employ to assess the effectiveness of different carbon mitigation approaches in tackling emissions, as well as through its work on carbon intensity metrics. Although standard-setting is explicitly not a part of the IFCMA’s mandates, its technical work could lay the foundation for the development of harmonized



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standards, thereby indirectly promoting harmonization.

Much depends on the extent to which the methodologies developed on mapping and assessing the effects of mitigation policies find support among the IFCMA membership. Although developing shared objectives and principles for BCAs is not directly within the scope of the IFCMA, it can potentially contribute toward this goal indirectly by facilitating an “inclusive multilateral dialogue”, which among other things could possibly deliberate on best practices pertaining to BCAs. As for contributing to global climate ambition, the IFCMA could help indirectly by laying the groundwork for determining what the most optimal and effective policies are for tackling climate change, and shedding light on what role, if any, BCAs can play in policy packages. Although the work of the IFCMA seeks to identify capacity constraints in evaluating climate mitigation policies, the Forum as such does not, however, provide any mechanism for providing (capacity-building or financial) support.

Conclusions and Way Forward

The foregoing analysis suggests that none of the three initiatives discussed emerges as an ideal candidate for international cooperation on BCAs. At the same time, this issue area remains a rapidly evolving context. While it may be too early to anticipate the success of the Climate Club and the IFCMA, the crosscutting and facilitative efforts they are pursuing, such as the collection of data and advancement of common metrics and methodologies, may prepare the ground for more robust long-term cooperation on BCAs, and may also help accommodate a more diverse set of mitigation actions and policy approaches. Additionally, through their transparency and inclusiveness, they may potentially strengthen the legitimacy and acceptance of future cooperative efforts on BCAs.

What the analysis also reveals is a real risk that

domestic interests and short-term political priorities will take precedence over the acknowledged benefits of international cooperation, unless any cooperative initiatives are thoroughly aligned with all participating jurisdictions’ domestic policy approaches and geopolitical positions. Finding a “landing zone” for international cooperation on BCAs among trading partners with often conflicting domestic contexts and priorities will be challenging, as attested by the recent breakdown of the GASSA negotiations among two partners with broadly aligned interests.

Inevitably, this observation gives rise to the question whether, in the current geopolitical context, there can be any way forward on international cooperation on BCAs. One thing is clear: in one form or another, BCAs are becoming an increasingly relevant part of the evolving climate policy landscape. It may be too soon to anticipate their role going forward, and whether they may prove to have been an isolated and temporary symptom of a difficult transition period in industrial decarbonization, or will proliferate and remain key policy elements far into the future. Still, the challenges they pose to established forms of international economic and environmental cooperation are not trivial, as are the risks arising from uncoordinated and unilateral initiatives.

While domestic interests and other overriding priorities may mute the appeal of such cooperation in the near term, the many benefits – political, economic and environmental – of cooperation as well as its ability to foster the perceived legitimacy and thus sustain international acceptance of BCAs will, over time, elicit growing pressure to engage in some form of international engagement. Much will also depend on the broader context of BCA cooperation, and whether, for instance, it is accompanied by efforts to honestly engage on the costs of implementation and the risks of protectionism, or includes mechanisms to extend support for developing countries that face difficulties complying with the attendant obligations.

References

Link to the full working paper discussed in this brief:

Mehling, Michael, Harro van Asselt, Susanne Droege, Kasturi Das, and Catherine Hall (2024), “Bridging the Divide: Assessing the Viability of International Cooperation on Border Carbon Adjustments” [MIT CEEPR Working Paper 2024-06](#), April 2024.



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