**ICC Proposals for Effective Carbon Pricing:**

**A case for increased coordination & alignment**

**Introduction & Context**

* In recent years, the world has largely galvanised around the need to limit global warming to 1.5°C in line with the goals of the Paris Agreement. The global business community stands resolutely and squarely behind the Paris Agreement and achieving net-zero emissions by 2050 despite the many challenges the current economic (and geopolitical) context present.
* The recent 2023 IPCC report[[1]](#footnote-2) underscores yet again that without urgent and concerted global mitigation and adaption action – across all sectors and systems – we will miss a rapidly closing window to tackle the climate crisis and prevent the most dramatic impacts on planet and people.
* Countries’ current nationally determined contributions (NDCs) remain insufficient to meet the Paris Agreement goals and make it likely that global warming will exceed 1.5°C during the 21st century and make it harder to limit warming below 2°C. This shows clear gaps in ambition, implementation and the enabling conditions to provide a credible global response to the climate crisis.
* COP28, and the first Global Stocktake (GST) of the Paris Agreement, represent a milestone moment for governments to build on the [Sharm el-Sheikh Implementation Plan](https://unfccc.int/cop27/auv) and COP27 achievements, that reaffirmed the countries’ commitment to set out actions for closing the emissions gap and keep 1.5°C alive, and achieve a clear roadmap for action in this critical decade for action.
* Countries must now focus on the "how" – on the much needed structural and systems changes and effective decarbonisation policies that provide a level playing field for businesses operating globally, and enable all businesses – from different sizes, sectors and jurisdictions – to take action in line with Paris Agreement goals and a 1.5°C pathway.
* Carbon pricing has long been recognised as the most cost-effective means to reduce GHG emissions and achieve countries’ NDCs. While not the ultimate solution, it is increasingly considered as an essential tool, as part of comprehensive policy package, to governments to achieve current NDCs at the least cost, scale up much needed investment for climate mitigation and adaption efforts and to encourage greater ambition in the future.
* Carbon markets and mechanisms have continuously evolved over the past ten years. 2022 saw several new carbon pricing instruments launched and some scope expansions, the number of implemented instruments increased to 73 with the share of global GHG emissions covered around 23%.[[2]](#footnote-3)
* Voluntary Carbon Markets continued to expand and we have also seen an increased momentum to address issues that undermine the integrity of carbon credit markets, including efforts by the Integrity Council for the Voluntary Carbon Markets to establish guardrails to increase transparency and integrity and by the Voluntary Carbon Market Integrity initiative to provide guidance to corporates.
* Most importantly, we are seeing early signs of progress on the operationalisation of Article 6 of the Paris Agreement on cross-border emissions trading, with not only increased evidence of bilateral agreements but also examples of establishing implementation frameworks and infrastructure to facilitate international cooperation[[3]](#footnote-4).
* While this is certainly a positive development, the increasingly fragmented international climate policy landscape, uncertainty with regards to implementation of Article 6 mechanisms and its interconnections with and implication on compliance systems and VCMs, as well as the lack of a universal and coordinated approach towards carbon pricing, continues to pose increased challenges and risks to businesses globally.
* The International Chamber of Commerce (ICC), as the institutional representative of 45 million companies in over 130 countries and as the official UNFCCC Focal Point for Business and Industry, strongly supports the use of market-based approaches and the successful implementation of a new phase of emissions trading under Article 6 and has been playing a key role in contributing business perspectives to ongoing developments in this space.
* ICC strongly encourages greater consistency, clarity and co-ordination between regional, national and supranational carbon pricing systems and increased linking, further making a strong case for a successful agreement at COP28 on outstanding elements to fully operationalise of Article 6 of the Paris Agreement without delay.
* Since 2021, ICC has drawn on the experience of its global membership in more than 130 countries to develop work in this area, emphasizing the need for predictable, effective and smartly designed carbon pricing as well as a coherent international approach which is the absolute key to unlock the full environmental and economic benefits of market-based policies.
* In 2021, at COP26, ICC launched 10 key [carbon pricing principles](https://iccwbo.org/news-publications/policies-reports/icc-carbon-pricing-principles/) that set out an essential foundation for the convergence required to meet this goal. At COP27 in 2022, ICC presented further work focusing specifically on the practical elements and [critical design features for carbon pricing mechanisms](https://iccwbo.org/news-publications/policies-reports/critical-design-features-for-effective-carbon-pricing-a-business-perspective/), also taking into account further technical discussions on Article 6 of the Paris Agreement and its operationalisation.
* In this process ICC has engaged with various stakeholders including governments, business representatives and academia, in which some key emerging issues have come to the fore as potentially undermining the effectiveness of carbon pricing mechanisms. Some of these key issues are related to carbon leakage, linking of carbon pricing systems as well as disparate carbon pricing levels.
* This third ICC report identifies these issues and outlines key challenges that undermine the effectiveness of carbon pricing mechanisms arising from the 73 existing systems globally[[4]](#footnote-5) and provides a business perspective with proposals for consideration by policymakers in addressing these issues and mitigating the risks these challenges present.

***What the ICC report will cover:***

* ICC acknowledges that there are both growing concerns regarding the risks of carbon leakage as well as uncertainty as to its existence. This report will shed further light on this issue, drawing from existing work on the topic, and further emphasising the relevance of addressing this issue.
* In accordance with ICC’s view for greater international cooperation and consistency, the ICC report further seeks to demystify the “Triangle” of the three major, existing carbon pricing segments – (A) Compliance Markets, (B) Voluntary Carbon Markets and (C) International Mechanisms, in particular Article 6 of the Paris Agreement, recognising the distinct purpose of each system for a common goal and
* We particularly recognise that Article 6 systems and processes are still very much in development and will need to evolve further in the coming months and years, before impacts and interlinkages with existing compliance and voluntary carbon markets as well as benefits and opportunity for cooperation and alignment can be fully realised.
* Finally, the report will also reflect on existing carbon price levels globally and how inflationary pressures can affect a push for higher carbon prices as well as alternatively how carbon pricing impacts inflation.
1. **ICC Proposals for Effective Carbon Pricing [TO BE COMPLETED]** *[Placed upfront in the report: to be completed based on work in further sections below]*
* In ICC’s view, effective and smartly designed carbon pricing can play an important role in accelerating global decarbonisation toward net-zero and sustainable future. In order to achieve this, carbon pricing systems and markets need to be consistent with the Paris

Climate Accord, keeping a limit of 1.5°C temperature rise within reach and achievement of global net-zero emissions by 2050.

* They need first and foremost contribute to immediate efforts to reduce GHG emissions in line with science-aligned pathways and help countries and the private sector to achieve set emissions targets.
* In addition, it is imperative that carbon pricing provides a predictable framework that facilitates both national, subnational and international cooperation for greater consistency, and most importantly unlocks social benefits and ensures a just transition with access to affordable, sustainable and low-carbon energy sources for all.

**ICC proposals and key considerations for policymakers**

* Based on the analysis hereafter undertaken by the ICC technical working group on carbon pricing as well as previous work and further exchanges with governments and academia, countries should consider the following immediate actions to support the development of effective carbon pricing systems, that can lead, in the medium and long term, to the creation of a sustained and robust global carbon market:
1. **Policy-makers should address carbon leakage concerns by developing measures that genuinely prevent risks for relocation of in country-based production (and associated emissions) to countries with less ambitious climate goals,** in particular for those sectors in global competition and for those that are not in a position to pass on additional costs arising through carbon pricing.
2. Any such approaches to prevent carbon leakage should be **considered and designed carefully and proportionately.** **Meaningful and timely engagement and consultation and full transparency** of the regime’s implementation and operation with foreign governments, trading partners and businesses is imperative to avoid any administrative complexity that would put additional hurdles on businesses.
3. When developing and implementing measures to prevent carbon leakage, such carbon adjustment mechanisms (BCAs), governments should consider the following broader principles and best practice, in a view of minimising any potential negative impacts and consequences on international commerce:
* **Primacy of leakage protection and clear climate measure.** Measures, such asBCA should seek to prevent leakage – an environmental objective that involves enabling domestic climate ambition. It needs to support increased ambition on climate mitigation and the achievement of a country’s climate targets under the Paris Climate Agreement.
* **Non-discriminatory and alignment with international trade rules**. They should be compatible with international treaties and agreements, most notably with WTO rules and non-discrimination principles, considering, in particular, GATT[[5]](#footnote-6) provisions. This concludes that measures should respect both the Most-Favoured-Nation principle on equal treatment between imported products of different trading countries as well as the National-Treatment principle, ensuring equal treatment between domestic and imported goods.
* **Transparent and robust accounting.** BCAs require a robust monitoring, reporting and verification system (MRV) that should be transparent but at the same time pose minimal administrative and legal burdens for business, providing clear guidelines on accounting and measurement standards. Using an internationally based MRV system optimises chances for international alignment.
* **Enable linkage.** A BCA should be designed in a way so that they provide the possibility for corresponding transfers of allowances or can be linked with third country BCAs in an attempt to create a “carbon club” between countries with high climate ambitions.
* **Recognising equivalences**. Equivalent measures taken by countries, in particular by developing and least developed countries domestically to incentivise increases emissions reductions, should be taken in account and recognised to the extent that they reduce the risk of leakage, and that credit for carbon-equivalent (CO2-e) costs already incurred by exporters should be granted.
* **Purpose-directed revenue use.** A BCA proposal should include provisions on the use of proceeds. A significant portion of the revenue should be used for the purpose of climate mitigation and adaptation purposes, especially in developing countries. Share of proceeds should also be allocated to support developing countries and their exporting industries to comply with the BCA regime.
* **Support for SMEs, in particular in developing economies.** To the extent possible carve outs for MSMEs, in particular in Least Developed Countries, from border carbon tax should be considered. Alternatively, a staged approach for small enterprises, below a certain export volume should be applied in order to help build needed capacities and capabilities for reporting and compliance. This should be coupled with sufficient capacity building and financial support to alleviate compliance and administrative costs.
* **Promote cooperative climate action.** It is important that BCAs do not hinder global efforts in climate action but promote increased collaboration and coordination. BCAs should therefore take into account and be compatible with national climate policies and pricing mechanisms, avoiding overlapping measures (e.g., double taxation), advancing international consensus on carbon pricing as well as providing incentives without harming investments in
* **Supporting sustainable development.** A BCA must be coherent with sustainable development policy objectives, including access to affordable and clean energy, economic growth, reducing inequalities as well as climate action, avoiding negative impacts on developing economies. Countries should undertake a risk assessment on the effect of a BCA on developing economies exports and competitiveness.

1. **Linking carbon systems and international cooperation, most importantly under Article 6 of the Paris Agreement can increase the benefits of carbon pricing and lead to higher climate ambition by governments and businesses.** The Paris Agreement’s bottom-up climate regime creates specific challenges for governance of international carbon markets, that continue to be part of the “crunch issues” heavily debated in the Article 6 negotiations.

Linking and aligning carbon pricing mechanism is key to connect fragmented policy efforts, overcome existing complexities and maintain their relevance in the era of the Paris Accord.

Linking can improve cost effectiveness by lowering the overall economic costs for certain sectors as well as reduce carbon leakage risks and competitive disadvantages. At the same time, it can increase coordination, alignment and the economically viable options for mitigation actions in different regions and can reduce complexity of carbon pricing coverage for cross border production processes and supply lines.

1. Given the challenges that can derive from linking carbon pricing systems, there is a strong need for **coordination and compatibility of all design features across linked systems**, to make sure that linking works effectively and that the environmental integrity of allowances across systems is maintained.

Key considerations to take into account in preparation for effective linking of carbon pricing systems include:

1. respective current and future levels of ambition;
2. voluntary or mandatory nature of the system;
3. standards for environmental integrity;
4. strategies for stabilising prices, and direction of future ETS policy;
5. the type and stringency of cap;
6. the Price or Supply Adjustment Mechanisms (PSAMs);
7. the use and environmental integrity of offset credits;
8. the robustness of MRV systems;
9. potential for linking with further systems; and
10. capacity of regulators to manage risks of misconduct in the secondary market
11. In view of the existence of three major carbon market segments, (A) Compliance Markets, (B) Voluntary Carbon Markets and (C) International Mechanisms, in particular Article 6 of the Paris Agreement, **governments should work towards increased alignment and harmonisation of key criteria, in particular accounting rules and frameworks, while respecting the different purposes of respective systems.** This can help reduce administrative complexity and hurdles for governments and businesses that want to participate in carbon markets.
12. **At COP28, countries must agree on critical outstanding elements to fully operationalise Article 6 of the Paris Agreement without further delay and set the foundations for a functioning, high-integrity cross-border carbon market.**

Business calls on governments to particularly build on already existing experiences under Article 6.2, focus on national implementation and find a compromise on the outstanding details of reporting requirements.

The Article 6.4 Supervisory Body must make steady progress in operationalising the 6.4 crediting mechanism so projects can begin to register and investments can flow. A functioning Article 6.4 mechanism has the potential to provide a plug-and-play solution for countries that want to use market mechanisms but do not have the technical capacity or political conditions to implement complex domestic legislation. In order to achieve broad participation in Article 6, in particular from the Global South, extensive capacity building support will be essential to strengthen institutional capacities to participate in these new markets.

Equal treatment should also be given to a wide range of activities and technologies that reduce or remove emissions and practices and experiences that are market-tested, including standards and practices from the voluntary carbon markets should be considered.

1. **It is essential that the detailed rules for Article 6.2 cooperation and the Article 6.4 mechanism both fulfil the “Rulebook” mandate for environmental integrity.** From a business perspective, there must be no re-opening or re-negotiation of the “rulebook” secured in Glasgow.Robust and transparent reporting, ambitious baseline-setting, additionality assessment, avoidance of emissions lock in, emissions leakage accounting, permanence, and the avoidance of all forms of double-counting are critical principles to take in to consideration in this regard.
2. **[CARBON PRICE LEVELS & INFLATION TO FOLLOW]**

1. **Challenges & Opportunities**
2. **Carbon Leakage**
* As countries apply different measures to reduce their carbon emissions, these measures, whether by explicit carbon pricing or regulation create a cost implication for the industry, particularly i) a cost of abating emissions through technology or changing production or ii) where a country uses carbon pricing, this will give rise to a separate cost for the emissions which are produced (cost for the residual emissions).[[6]](#footnote-7)
* The theory of carbon leakage refers to “the situation that may occur if, for reasons of costs related to climate policies, businesses were to transfer production to other countries with laxer emission constraints”.[[7]](#footnote-8)
* Essentially, carbon leakage is considered as a result of asymmetrical- fragmented carbon policies, price differences and sector coverage and the resulting carbon cost, which could displace production and/or investment with consequent displacement of activities potentially producing higher emissions. If emissions are shifted to another jurisdiction with less stringent decarbonisation policies, carbon leakage can undermine a country’s unilateral efforts to reduce emissions and the effectiveness of carbon pricing.[[8]](#footnote-9)
* It should be noted however that the existence or risk of carbon leakage is not necessarily broadly acknowledged or accepted, and some reports have claimed that there is no evidence of displacement of production or future carbon leakage risk.[[9]](#footnote-10)
* Nonetheless, it is clear that there are growing concerns regarding the risks and implications of carbon leakage, and that many governments are considering implementing measures or a mix of policies to address this issue. This ICC report recognises the growing concern of leakage and seeks to discuss existing approaches to address these risks, with a view to providing proposals for governments and policymakers to support the development of carbon pricing policies that can lead to increased climate ambition and greater international coordination and alignment.

**Existing instruments/measures to address carbon leakage**

* Significant work has been carried out by various organisations examining existing instruments and policy measures to address carbon leakage, some of which is referenced in this report, with the intention to reflect more generally on global mechanisms to address carbon leakage, and any resulting challenges these may pose.
	+ 1. Border carbon adjustments (BCAs)
* A BCA works by imposing a charge on specified imported goods according to their level of embedded carbon. Depending upon the design of the BCA, the definition of embedded carbon can cover direct and indirect emissions. A BCA therefore requires agreed systems of quantifying and verifying embedded carbon.
* Whilst BCAs are being considered by a number of countries, the most developed proposal for a BCA is the European Union Carbon Border Adjustment Mechanism (CBAM) which seeks to reduce the risk of carbon leakage and to level the field for European industries working towards decarbonisation of their production processes.
* In July 2021, as part as part of the "Fit for 55" package[[10]](#footnote-11), the Commission adopted its proposal for a regulation establishing a Carbon Border Adjustment Mechanism – a trade measure which seeks to address the risk of carbon leakage by imposing a levy on imports of certain GHG emissions intensive goods from outside the EU. The EU’s Carbon Border Adjustment Mechanism (CBAM) is aimed at putting a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage less emissions intensive industrial production in non-EU countries. The gradual introduction of the CBAM is aligned with the phase-out of the allocation of free allowances under the EU Emissions Trading System (ETS) to support the decarbonisation of EU industry.
* By confirming that a price has been paid for the embedded carbon emissions generated in the production of certain goods imported into the EU, the CBAM will ensure the carbon price of imports is equivalent to the carbon price of domestic production.[[11]](#footnote-12)
* The EU CBAM takes into account the carbon pricing policies that may exist in other countries, applying an adjustment on the import side for countries that already have their own carbon pricing. The objective is that emissions are priced, preferentially in the country of origin and, if not, once they arrive in the EU.
* The CBAM Regulation was finally signed on 10 May 2023 and the CBAM itself will enter into application in its transitional phase on 1 October 2023, with the first reporting period for importers ending 31 January 2024. The set of rules and requirements for the reporting of emissions under CBAM will be further specified in an implementing act to be adopted by the Commission after consulting the CBAM Committee, made up of experts from EU Member States.
* As noted above, other countries are also considering the use of BCAs. In June 2023, the UK completed an open consultation[[12]](#footnote-13) specifically on addressing carbon leakage risk to support decarbonisation, including other mitigating policies, such as carbon clubs, mandatory product standards and demand side policies.
* The Government of Canada initiated public consultations[[13]](#footnote-14) in the fall of 2021 exploring the use of BCAs for a variety of fossil fuel and emissions-intensive trade-exposed (EITE) sectors, which account for more than 70% of Canada’s export. Input received through this consultation will assist the government in the next steps in the consideration of border carbon adjustments. The formal consultation has concluded, but a proposed regime has not as yet been proposed.
* U.S. Senator Sheldon Whitehouse (D-RI) introduced a bill[[14]](#footnote-15) in early June 2022 called the "Clean Competition Act” which proposes a carbon border adjustment in the U.S. to incentivize foreign producer decarbonisation. The plan was to establish a $55 per ton price on carbon, with an increase of 5 percent above inflation each year. The bill is active but is not expected to pass.
	+ 1. Free allowances under an ETS
* Under an ETS, the government sets the limit of emissions to be produced by covered industries – which are typically heavy emitting industries such as iron and steel, aluminium, cement, glass, and power plants. Emission allowances (emission permits) are then auctioned or distributed for free to most energy-intensive industries considered at risk of carbon leakage, in order to safeguard the competitiveness of these regulated industries where the carbon price could trigger the relocation of production. These permits or allowances can be traded between companies and other market participants. While the government therefore sets the maximum amount of CO2 which can be produced, the market sets the price.
* In the EU ETS, free allowance allocation is used. Under the revised EU ETS Directive, the system of free allocation will be prolonged for phase 4 of the EU ETS (2021-2030). Free allocation will focus on sectors at the highest risk of relocating their production outside of the EU[[15]](#footnote-16). For less exposed sectors, free allocation is foreseen to be phased out after 2026 from a maximum of 30% to 0 at the end of phase 4 (2030).
	+ 1. Carbon tax reliefs
* A carbon tax can be applied to industry on a fuel basis or a direct emission basis. The former method applies the tax to particular fuels depending upon their carbon content; the latter applies the tax to a particular business or installation based on its emissions. In either case a reduction can be used to support energy intensive trade exposed sectors (EITE) industries. This could consist of an exemption, a rebate of tax or a reduction.
	+ 1. Output-Based Pricing System (OBPS)
* As demonstrated in the Canadian system, provinces and territories have flexibility to develop their own carbon pricing systems as long as they meet the so called ”Federal Carbon Pollution Pricing Benchmark” - a set of minimum national stringency criteria[[16]](#footnote-17).
* The federal carbon pricing system applies in provinces/territories that request it or that do not implement a system that meets the minimum stringency requirements. A Federal carbon pricing backstop provides a backstop to provincial approaches that applies in any province or territory that does not have a carbon pricing system that meets the benchmark criteria.[[17]](#footnote-18) A province may also choose to apply this rather than introduce its own rules.
* Part of the Federal Backstop System is a performance-based system for industries, known as the federal Output-Based Pricing System (OBPS). This system is designed to maintain the carbon price signal for industrial emitters to reduce their GHG emissions, while mitigating the risk of carbon leakage and competitiveness impacts.
* The OBPS applies to facilities in the emissions-intensive and trade-exposed industrial and electricity sectors that emit equal to or more than 50,000 tCO e. Smaller facilities with annual emissions equal to or more than 10,000 tCO₂e from sectors at risk of carbon leakage and adverse competitiveness impacts can apply to participate voluntarily.[[18]](#footnote-19)

**Key challenges that some of these instruments pose**

Border Carbon Adjustments

1. With regards to the EU CBAM, several emerging and developing economies have challenged the validity or basis of carbon leakage, and in particular have raised concerns regarding compliance with WTO trade rules, the trade implications and restricted market access for countries (both equal trading partners and developing countries) exporting to the EU, which are comparatively disadvantaged as a result of the imposed BCA and the need to recalibrate their systems and pricing[[19]](#footnote-20) [[20]](#footnote-21).
2. The UNCTAD report: *A European Union Carbon Border Adjustment Mechanism: Implications for Developing Countries*[[21]](#footnote-22) notes that the introduction of a BCA results in declines in exports in developing countries in favour of developed countries, which tend to have less carbon intensive production processes. The report suggests that the European Union could consider CBAM flanking policies, including the use of revenue generated by the CBAM, to accelerate the diffusion and uptake of cleaner production technologies to developing country producers, which could be beneficial both in terms of greening the economy and fostering a more inclusive trading system.
3. While an effective BCA addresses leakage and levels the playing field economically as regards imports, the proposals do not usually provide relief for exports. This is because a BCA aims to impose a charge on imports to level the carbon price with that borne by domestic products. However, when domestic products are exported, there is generally no relief or rebate given for the carbon price which has been incurred which means exports may be at a competitive disadvantage in comparison with competitor products in or from lower action countries.
4. Another area of concern is the level of complexity and related compliance costs. The EU CBAM will create a heavy administrative burden for the trade of those products covered in the mechanism, as its implementation will require the burden of proof on importers into the EU in the sectors covered, to i) prove the level of emissions from production and ii) if applicable, prove that a carbon price was paid in the country of origin.
* If the declaration of emissions and carbon pricing systems proves to be too complex or cumbersome for importers, the EU CBAM could in turn hinder trade flows between the EU and non-EU countries and restrict market access to the EU. It would be preferable that a member state or the EU itself could recognise a trading partner country’s carbon pricing system, however current legislation does not provide for that. For example, if 100 different companies import fertilizers from China or Canada to the EU, each company would need to individually describe to the national authorities how the Chinese or Canadian ETS system relates to the EU ETS and how this impacts the relevant payments they would need to make.

1. ICC recently contributed[[22]](#footnote-23) to a consultation specifically on the implementation and operationalisation of the European Commission’s draft act for the application of Regulation (EU) 2023/956 regarding the EU CBAM, which outlines existing challenges for businesses in implementing the Act, including entry into effect, a transitional phase, navigating uncertainty with limited visibility and lack of comprehensive guidance and highlights the need for strengthened public-private sector collaboration, greater clarity and comprehensive guidance.
2. The question of equivalence or difference in pricing to compensate for leakage is another element for consideration that could pose certain challenges. In instances where an exporting country has a lower carbon price, the question arises as to whether the price for the BCA be applied for the difference between the carbon price of the importing and exporting country; or will considerations be given where the exporting country price could be considered sufficient vis-à-vis the ability/limitations of that country to effect a higher carbon price; particularly in developing countries?
* In this respect options are being considered to provide for an export levy on producers, as an equivalent on the export. Relatedly, questions have been raised as to whether other countries should be compelled to introduce a higher carbon price if they are not a high emitting country and contribute a relatively small percentage to global emissions.
1. An IMF Working Paper: Border Carbon Adjustments: Rationale, Design and Impact (2021)[[23]](#footnote-24), provides a helpful overview of design Choices for BCAs and how they affect multiple objectives (pg. 16) across different metrics, including limiting leakage, protecting competitiveness of EITE industries, promoting mitigation and carbon pricing in other countries, amongst others. The table also highlights some of the challenges raised above and outlines the inherent fiscal incentive in any BCA for trading partners to impose some carbon pricing, but notes that the incentive appears modest given the small shares of emissions in trade flows.

* It further notes that whilst BCAs are initially introduced unilaterally, countries may subsequently coordinate to create border free trading zones with a common external charge, which may ultimately lead to more formal and comprehensive arrangements for coordinating over carbon pricing.
* It suggests that a BCA in combination with other incentives could promote participation in an international carbon price floor (ICPF) arrangement among large emitting countries. The purpose of an ICPF would be to facilitate a scaling up of global carbon pricing (or equivalent measures) through coordinated action to address free-rider and competitiveness obstacles that hamper countries when they act unilaterally, and that it could potentially even avoid the need for, BCAs, given BCAs price only carbon embodied in trade flows rather than all emissions.

Output-based Pricing System

1. There is room for improvement with respect to optimising international alignment to enhance the effectiveness of the mechanism more broadly, and particularly the need to further improve and strengthen the accounting and reporting framework over time and aligning it with the reporting, accounting and transparency provisions agreed under the UNFCCC and Paris Agreement.
2. Whilst the creation of a backstop in a federal context provides clarity for economic actors operating across multiple jurisdictions of the long-term policy priority while providing flexibility for provincial approaches, the flexible approach could increase complexity and administration for entities operating across several domestic systems, especially as these differ widely in terms of emission coverage, effective carbon price and cost burden on industry.

*[Include a list of additional literature/studies to be considered in an Annex]*

1. Demystifying the “Triangle” – (A) Compliance Markets, (B) Voluntary Carbon Markets and (C) International Mechanisms, in particular Article 6 of the Paris Agreement
* The momentum behind carbon markets and mechanisms has been growing and multiple carbon market segments have emerged over the past two decades. Despite economic turmoil and energy price shocks in the past two years, governments have generally maintained and, in some cases, even advanced direct carbon pricing policies.[[24]](#footnote-25)
* Moreover, record high volumes of credits are being transacted on the voluntary carbon markets and despite continued uncertainty with regards to implementation of Article 6 mechanisms under the Paris Agreement, there are early signs of progress with countries already engaging in Article 6.2 pilots and programs[[25]](#footnote-26).
* The full spectrum of the current global carbon market can broadly be categorised in three market segments: **(A) Domestic (sub-state) Compliance Markets, (B) Voluntary Carbon Markets and (C) International Mechanisms, that include, *inter alia*, Clean Development Mechanism, Joint Implementation, and Article 6 of the Paris Agreement.**

 **Graphic explaining *Triangle* A, B, C
legal definition, purpose & potential interlinkages**

* Despite strong differences in terms of governance, design and purpose, the three systems share one main goal: reducing GHG emissions and addressing the market failure of climate change by capturing the external costs of emitting GHG emissions, and ultimately helping government and companies achieve their climate goals.
* Despite positive developments in the global carbon market, governments and businesses are confronted with an increasingly fragmented, complex and non-transparent international climate policy landscape, characterised by differences in terms of governance, design and methodologies as well as different degrees of transparency and scales.
* Countries can have regulated compliance markets and at the same time allow for voluntary market purchases to occur in sectors that are outside of that system and can also potentially participate in activities under Article 6.2 and 6.4 of the Paris Agreement.
* If there is a coexistence of these three types of markets in a jurisdiction, this could cause regulatory, data, reporting and administrative challenges as there would be three separate policy or governance systems.
* As rules to fully operationalise Article 6 of the Paris Agreement are still being discussed, it is difficult to predict the implications of a fully operational Article 6.2 mechanism as well as a potential highly stringent market created by Article 6.4 on existing compliance and voluntary markets. It will therefore be critical to continuously examine the development of these interactions and assess their implications to ensure maximum consistency where possible, as well as clarity and co-ordination amongst these systems.
* Some experts see the VCM as an example for Art 6.4 methodologies, which could grow as an alternative to Article 6 or potentially also lose importance, as there would be a convergence of the two in terms of rules and higher standards.

**Guiding Principles**

* It is critical for each of the three carbon pricing segments presented above to be guided by overarching principles. Principles embody the fundamental objective(s) and the key rules of a given system, from which it is developed and results.
* Clear principles are key for policymakers when designing a regional, national and supranational carbon pricing system, or when negotiating rules for international cooperation under Article 6 or the Paris Agreement, as well as for independent bodies when developing rules for high-integrity carbon credits.
* Looking now (1) the ICC carbon pricing principles, specifically dedicated to the development of compliance markets, (2) the Core Carbon Principles developed by the Integrity Council for the Voluntary Carbon Market (ICVCM), and (3) the Article 6 Rulebook setting out the conditions and rules for emissions trading between countries within the UN system under Article 6 of the Paris Agreement, there are important commonalities and differences.
* For the purpose of this exercise, it is worth also considering the [San José Principles Coalition for High Ambition and Integrity in International Carbon Markets](https://cambioclimatico.go.cr/sanjoseprinciples/about-the-san-jose-principles/) launched by a group of countries ahead of COP25 in 2019 as well as the [G7 Principles of High Integrity Carbon Markets](https://www.meti.go.jp/information/g7hirosima/energy/pdf/Annex004.pdf) published earlier this year that contain relevant broad principles that aim to build the basis for a high integrity carbon markets and a robust Article 6 system that promotes the highest climate ambition.
* The main similarities and differences include: [TO BE COMPLETED]

**TABLE COMPARISON PRINCIPLES [TO BE COMPLETED]**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1. ICC Carbon Pricing Principles – compliance markets | 2. Core Carbon Principles (CCPs) ICVCMs – voluntary carbon markets  | 3. Article 6 Rulebook | San José Principles for High Ambition and Integrity in International Carbon Markets  | G7 Principles of High Integrity Carbon Markets |
| 1: Focus on GHG emissions reduction as prime target, including the prevention of GHG leakage2: Create a reliable, predictable overall framework3: Promote consistency between climate, energy, trade and taxation policies4: Create a clear and robust transparency framework5: Maintain accessibility to and affordability of low-carbon and clean energy sources6: Promote international linking of carbon pricing instruments7: Recognise that there is no “one-size-fits-all” single instrument8: Couple carbon pricing with climate change mitigation and adaptation9: Ensure international cooperation for greater consistency globally10: Develop mechanisms through inclusive and transparent consultation with business and other key stakeholders | **A. Emissions Impact****Additionality**: The greenhouse gas (GHG) emission reductions or removals from the mitigation activity shall be additional, i.e., they would not have occurred in the absence of the incentive created by carbon credit revenues.**Permanence:** The GHG emission reductions or removals from the mitigation activity shall be permanent or, where there is a risk of reversal, there shall be measures in place to address those risks and compensate reversals.**Robust quantification of emission reductions and removals:** The GHG emission reductions or removals from the mitigation activity shall be robustly quantified, based on conservative approaches, completeness and sound scientific methods.**No double counting:** The GHG emission reductions or removals from the mitigation activity shall not be double counted, i.e., they shall only be counted once towards achieving mitigation targets or goals. **B. Governance****Effective governance**: The carbon-crediting program shall have effective program governance to ensure transparency, accountability, continuous improvement and the overall quality of carbon credits.**Tracking:** The carbon-crediting program shall operate or make use of a registry to uniquely identify, record and track mitigation activities and carbon credits issued to ensure credits can be identified securely and unambiguously.**Transparency:** The carbon-crediting program shall provide comprehensive and transparent information on all credited mitigation activities. The information shall be publicly available in electronic format and shall be accessible to non-specialised audiences, to enable scrutiny of mitigation activities.**Robust independent third-party validation and verification:** The carbon-crediting program shall have program-level requirements for robust independent third-party validation and verification of mitigation activities.**C. Sustainable development****Sustainable development benefits and safeguards****Contribution to net zero transition** | **Guidance on cooperative approaches referred to in Article 6.2****Internationally transferred mitigation outcomes (ITMOs):** An ITMOs is defined as an authorized transfer of a mitigation outcome for use: a) towardsan NDC; b) for other international purposes (undefined, but largely understood as ICAO andIMO); for other purposes as determined by the first transferring Party (largely understoodfor voluntary carbon markets (VM)) if the Party so wishes to do, or the standard requires it.Additional criteria: * 1. Real, verified, and additional;
	2. Emission reductions and removals
	3. An Art 6.4 mechanism unit is also treated as an ITMO.

**Participation: “**Each participating Party shall ensure that its participation contributes to the implementation of its NDC and long-termlow-emission development strategy, if it has submitted one, and the long-term goals of theParis Agreement.”**Corresponding Adjustments (CA):** When an international transfer is authorized for these uses, it then requires thata corresponding adjustment be undertaken. Transfers that are not authorized could potentially be used for domestic purposes, resultsbased finance, or voluntary corporate targets.“Each participating Party shall apply corresponding adjustments in a manner that ensures transparency, accuracy, completeness, comparability and consistency.” **Share of Proceeds (similar to Article 6.4 provisions) and Overall Mitigation of Global Emissions** “Participating Parties and stakeholders using cooperative approaches are stronglyencouraged to commit to contribute resources for adaptation, in particular through contributions to the Adaptation Fund. […]and to take into account the delivery ofoverall mitigation in global emissions under the mechanism established by Article 6,paragraph 4”**Safeguards and limits** (provisions are meant to ensure that a) no Party oversells and have difficulty reachingits own NDC, and b) that most of the effort to reach ones NDC is domestic in nature, and that reaching ones NDC is not largely based on purchases and the use of ITMOs towards an NDC)“Each participating Party shall ensure that the use of cooperative approaches does notlead to a net increase in emissions of participating Parties within and between NDCimplementation periods or across participating Parties and shall ensure transparency,accuracy, consistency, completeness and comparability in tracking progress inimplementation and achievement of its NDC”**Reporting: Initial Article 6.2 report required with comprehensive information to**:* demonstrate that the participating Party fulfils the participation responsibilities;
* communicate the ITMO metrics and the method for applying CAs
* Describe how each cooperative approach ensures environmental integrity, including: there is no net increase in global emissions within and between NDC implementation periods; by minimizing the risk of non-permanence of mitigation; minimize and, where possible, avoid negative environmental, economic and

social impacts**Review: Foresees an Article 6 technical expert review consists of a desk or centralized review of the consistency of the information submitted by the Party****Recording and tracking: Foresees creation of national, international registries as well we Article 6 Data base and centralized accounting and reporting platform****Rules, modalities and procedures for the mechanism established by Article 6.4** | Ensure **environmental integrity**, **permanence**, and ultimately enable the **highest possible mitigation ambition.**Deliver an **overall mitigation in global emissions**, moving beyond zero-sum offsetting approaches to help accelerate the reduction of global greenhouse gas emissions.Ensure that all forms of **double counting/claiming are avoided** and that all use of markets toward international climate goals is subject to **corresponding adjustments**.Avoid **locking in levels of emissions**, technologies or carbon-intensive practices incompatible with the achievement of the Paris Agreement’s long-term temperature goal.Apply **allocation methodologies and baseline methodologies** that support domestic NDC achievement and contribute to achievement of the Paris Agreement’s long-term temperature goal.Use CO2-equivalence in reporting and accounting for emissions and removals, fully applying the **principles of transparency, accuracy, consistency, comparability and completeness.**Use centrally and publicly accessible infrastructure and systems to collect, track, and share the information necessary for **robust and transparent accounting.**Ensure **incentives to progression** and supports all Parties in moving toward economy-wide emission targets.Contribute to **quantifiable and predictable financial resources** to be used by developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.Recognise the importance of **capacity building** to enable the widest possible participation by Parties under Article 6 | **A. Supply integrity****Robust certification standards for MRV of emission reductions and removals, to ensure:**1: crediting levels align with emissions pathways consistent with the Paris Agreement temperature goal2: credits are issued for emission reductions or removals that clearly contribute to host country mitigation, and avoid lock-in of high emissions pathways3: alignment with requirements for environmental integrity under Art 6 for: ambitious baseline-setting, additionality assessment, avoidance of emissions lock-in, emissions leakage accounting, permanence, avoidance of all forms of double-counting4: robust and transparent governance, to ensure transparency and public accountability on decisions and decision-making processes, as well as the long-term administration of the standard, issued credits, and their ownership**Sustainable development objectives and resulting benefits are transparently reported.****B Demand-side integrity:**The use of credits, including by the private sector, align with keeping a limit of 1.5°C temperature rise within reach and achievement of global net-zero emissions by 2050, in relation to unavoidable emissions and where science-based climate change mitigation strategies and targets are in place that prioritize direct action to mitigate emissions.Emission reductions or removals underpinning carbon credits are claimed for use to achieve NDCs and other international mitigation purposes only when authorised according to the Guidance Article 6.2 and eligible for such use.The use of carbon credits is disclosed through reporting processes that make such information transparent to and easily accessible by the public.**C. Market integrity**Emissions across all scopes and associated targets, and strategies and annual progress toward their implementation, are transparently disclosed and tracked.Global standard-setting bodies and initiatives cooperate to align standards, clarify their respective services or roles, and continually innovate certification products that will meet and exceed current practice and expectations of regulators and other stakeholders to reduce carbon credit market fragmentation and promote a uniform shift to high integrity. |
|  |  | **Activity cycle**The activity: shall be designed to achieve mitigation of GHG emissions that is additional, including reducing emissions, increasing removals and mitigation co-benefits of adaptation actions and/or economic diversification plans (hereinafter collectively referred to as emissionreductions), and not lead to an increase in global emissions**Methodologies:** Mechanism methodologies shall encourage ambition over time; encourage broad participation; be real, transparent, conservative, credible, below ‘business as usual’; avoid leakage, where applicable; recognize suppressed demand; align to the long-term temperature goal of the Paris Agreement, contribute to the equitable sharing of mitigation benefits between the participating Parties; and, in respect of each participating Party, contribute to reducing emission levels in the host Party; and align with its NDC, if applicable, its long- term low GHG emission development strategy if it has submitted one and the long-term goals of the Paris Agreement.**Approval & authorization, validation, registration, monitoring, verification and issuance in accordance with the relevant requirements adopted by the****Supervisory Body****Levy of share of proceeds for adaptation and****administrative expenses**“The share of proceeds to assist developing country Parties that are particularlyvulnerable to the adverse effects of climate change to meet the costs of adaptation shall becomprised of a levy of 5 per cent of A6.4ERs at issuance”**Delivery of overall mitigation in global emissions shall be enhanced through****mandatory cancellation of A6.4ERs that are also accounted for in accordance with the****following****Transition of clean development mechanism activities**CDM activities (projects and POAs) would transition to the Art 6.4 under certain deadlines:the request for transition by project participants has to take place before 2023; the approvalby the Supervisory Board has to take place by 2025 and methodologies could be used for a certain period. |  |  |

1. **Linking and International Cooperation**
* Linking of carbon pricing systems and international cooperation are two core principles of the ICC Carbon Pricing Principles launched at COP26.

**Implementation & importance of Linking**

**Definition of “Linking”**

* Different definitions and explanations for linking and linking approaches exist today. For the purpose of this work, linking is defined as a way of connecting regional, national and supranational carbon market mechanisms and policies with the aim of creating a more harmonised, consistent and coordinated international approach to carbon pricing, leading to convergence of carbon prices and the development of sustained and robust global carbon market over time.

**Market mechanisms linking**

* Linking is possible between heterogeneous climate policy instruments and can take different forms. The most important one is the linking between ETS: This “linking” of two or more ETSs creates a larger carbon market, which can provide the participating regions and companies with more cost-efficient options to reduce their emissions and enable them to use permits from another system for compliance.[[26]](#footnote-27)

**Broader policy linking**

* Carbon pricing is an essential strategy for unlocking investment in the transition to a low and net zero emissions economy. Yet, measures beyond core climate policies are needed for decisive and coordinated climate action, where an increased alignment and “linking” of climate policies and countries NDCs plans with economic, social, and environmental policies will be critical.

**Benefits of linking**

* In an increasingly bottom-up international climate regime, linking carbon pricing systems is key to connecting fragmented policy efforts.
* Linking carbon pricing systems can provide a number of economic and political benefits, most importantly it can make climate mitigation efforts more cost-effective and may allow governments and companies to adopt more ambitious climate targets. In particular, linking can:
	+ Improve cost effectiveness and reduce the cost of action by reducing aggregate compliance costs (in a similar way that costs are reduced in a trade relationship);
	+ Improve price stability and predictability;
	+ Reduce leakage concerns and competitive disadvantage, creating a level playing field for companies across the linked market, which now face the same carbon price.
	+ Linking increases the number of market participants. With more actors

buying and selling permits, market depth and liquidity increase. A bigger carbon market is also better at absorbing shocks and is more resilient to manipulation, which could result from a buyer or seller power;

* + Bring administrative efficiency and lower administrative costs.
	+ Linking can allow different jurisdictions to increase political momentum and attention for climate action, by demonstrating their climate leadership at a global level.
* Therefore, linking is a determinant element that must be considered when developing or implementing an effective carbon pricing system.

## Prerequisites for successful linking

* Whilst a larger linked system would be able to take advantage of more mitigation options, other factors such as political decisions and economic developments in every jurisdiction will become variables to consider in the larger market.
* Given the challenges that can derive from linking carbon pricing systems, there is a strong need for coordination and compatibility between linked systems, to make sure that linking works effectively and that the environmental integrity of allowances across systems is maintained.
* Ensuring compatibility of design features across systems is very important:

	+ A clear understanding of the objective of the linking, as well as similar respective current and future levels of ambition, standards for environmental integrity, strategies for stabilising prices, and direction of future ETS policy is needed.
	+ Some design features require strict compatibility, such as the voluntary or mandatory nature of the system, the type of cap, the Price or Supply Adjustment Mechanisms (PSAMs), the use and environmental integrity of offset credits, borrowing and banking and the potential for linking with further systems.
	+ Other design features rather demand confidence that the linking partner will achieve comparable outcomes through its ETS, such as the stringency of the cap, the robustness of MRV systems, capacity of regulators to manage risks of misconduct in the secondary market, the administration of registry and tracking allowances, and ability and willingness to enforce ETS rules.
* Another critical element to consider when designing and implementing carbon pricing mechanisms is alignment with international trade rules, to avoid creating trade barriers.
* For policymakers, linking also means a loss of regulatory flexibility and control on a regional level, emphasizing the need for close coordination between linked systems.
* The timing of the linking should also be considered, as well as its governance and rules to plan a future de-linking.

## Article 6 of the Paris Agreement: A key enabler for increased cooperation and higher climate ambition and action

* One of the key elements to increasing climate ambition and action lies in enabling countries and businesses to cost-effectively manage their emissions reductions through co-operation with other countries and businesses globally – this can be done through the implementation of cross-border carbon markets under Article 6 of the Paris Agreement.
* The conditions for cross-border emissions trading fundamentally changed when the Paris Agreement Article 6 Rulebook was adopted at COP26 in Glasgow in 2021. The Rulebook sets out the conditions and rules for emissions trading between countries within the UN system under Article 6 of the Paris Agreement, more specifically for [Article 6.2](https://eur01.safelinks.protection.outlook.com/?url=https%3A%2F%2Funfccc.int%2Fsites%2Fdefault%2Ffiles%2Fresource%2Fcma3_auv_12a_PA_6.2.pdf&data=05%7C01%7CSandra.HANNI%40iccwbo.org%7C988524db17544236feda08da54855823%7Cc541a3c6520b49ce82202228ac7c3626%7C0%7C0%7C637915228945171069%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C3000%7C%7C%7C&sdata=CX8Cx%2FC0hEyHJ%2FNOTwWdVrzmYWVDZhyW1x25D9qzLvM%3D&reserved=0) (allowing for the international transfer of carbon credits between countries) and [Article 6.4](https://eur01.safelinks.protection.outlook.com/?url=https%3A%2F%2Funfccc.int%2Fsites%2Fdefault%2Ffiles%2Fresource%2Fcma3_auv_12b_PA_6.4.pdf&data=05%7C01%7CSandra.HANNI%40iccwbo.org%7C988524db17544236feda08da54855823%7Cc541a3c6520b49ce82202228ac7c3626%7C0%7C0%7C637915228945171069%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C3000%7C%7C%7C&sdata=IfGLTXCBV9UwTL%2Ftg6u%2BI1WG0s17w5PRKDP0RzuwlGA%3D&reserved=0) (creating a central UNFCCC mechanism to trade credits from emissions reductions generated through specific projects).[[27]](#footnote-28)
* Article 6 itself is not designed to create a global carbon price. However, if operationalised and implemented effectively, it has enormous potential to establish a functioning, high-integrity cross-border carbon market and to provide the foundational overarching international architecture for countries to increase cooperation on emissions trading.
* It can further assist in developing transparency around carbon pricing and allowing for a stronger and more coordinated approach to carbon pricing[[28]](#footnote-29) and most importantly avoid potential unilateral and protectionist climate policy measures.
* Furthermore, Article 6 also has the potential to drive forward multilevel and multilateral collaboration between government and the private sector – locally and globally – offering the chance to work together collectively to achieve our common goals. To achieve this, the private sector has a key role to play in translating Article 6 collaboration frameworks into real action.[[29]](#footnote-30)
* While the fundamental rules for Article 6 are now agreed, the myriad details to make them function have still to be defined and governments have to work to ensure that the new mechanisms can deliver real and additional benefits to the climate and society.
* ICC urges countries to agree on all outstanding elements at COP28 to fully operationalise Article 6 with high integrity and without delay and provide a workable platform for Parties and businesses to use.
1. **Carbon Price Levels & Inflation** [TO BE COMPLETED]

## In the short to medium term, carbon pricing will create inflationary pressures

* Carbon pricing translates into higher energy prices (fossil inflation to encourage substitution)
* leading to higher electricity prices (increase of production costs)
* and higher price for critical mineral (high level of concentration, production cycle takes times): demand surpass the supply. Greenflation (already happening for lithium prices)
* At the same time, the energy transition requires structural changes of the labour markets (increase demand of skilled labour but supply is not adequate yet, leading to labour shortages).
* This will lead to inflation. (is the inflationary impact different according to the type of carbon pricing instrument (ETS, carbon tax, ect). In some countries, ETS prices already linked to inflation.

## In the long run, inflation will gradually decrease (except if we act too late)

* The cost of inaction is high and will foment inflation anyway (climate inflation): flood, drought/heat. The cost of mitigation is significant. It will also be reflected in increase in insurance rates (green premiums), increase of tax to finance reinsurance, car insurance premiums (case of Florida- Bloomberg).
* By fostering substitution, carbon pricing policies will gradually reduce the price of clean energy (scale economies).
* The sooner we act, the better. Otherwise, the transition will need to happen fast and will cost more (in terms of investment and inflation). In addition, the faster you decarbonize, the faster you will generate and retain economic rent (competition advantage for first comers).
* The role of Central Banks in mitigating the inflationary shock is crucial: ECB vs Fed visions/legal mandates, market neutrality. Repricing climate risks to avoid a disorderly transition. Anticipate inflation expectations.

**\* \* \***

1. https://www.ipcc.ch/report/sixth-assessment-report-cycle/ [↑](#footnote-ref-2)
2. World Bank, 2023, State and Trends of Carbon Pricing <https://openknowledge.worldbank.org/entities/publication/58f2a409-9bb7-4ee6-899d-be47835c838f>

Report finds that “governments are prioritizing direct carbon pricing policies to reduce emissions, even in difficult economic times. The economic turmoil and geopolitical instability of this past year threatened to divert attention from the pressing need to act on climate. Despite these pressures, ETSs and carbon taxes have proven resilient; several jurisdictions either delivered on existing plans for new ETSs or taxes, increased their ambition, or announced further proposals for developing new initiatives in the coming years. Recent developments on Article 6 suggest a pathway for international carbon markets, though more work is needed to build the administrative capacity for countries to engage further.” The report further notes that “introducing a price signal for climate mitigation is critical to driving investment and behavior change to lower emissions. Carbon pricing must continue to grow, both in terms of coverage and price, to drive the transformational change needed to meet the Paris temperature goals. However, governments need to consider trade-offs when deciding which carbon pricing approach to use: ETSs, carbon taxes and carbon crediting, and international carbon markets each have their place.” [↑](#footnote-ref-3)
3. [ADD EXEMPLES] [↑](#footnote-ref-4)
4. [World Bank State and Trends of Carbon Pricing 2023](https://openknowledge.worldbank.org/entities/publication/58f2a409-9bb7-4ee6-899d-be47835c838f) [↑](#footnote-ref-5)
5. The General Agreement on Tariffs and Trade is a multilateral legal framework directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce [↑](#footnote-ref-6)
6. [UN Tax Committee Proposed Guidance on (1) Part A: Carbon leakage and ways to address it; and (2) Part B: Carbon border adjustment measures and proposals](https://financing.desa.un.org/sites/default/files/2023-04/CRP.17%20Environmental_Workstream%204%20%28BCAs%29.pdf) [↑](#footnote-ref-7)
7. <https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/free-allocation/carbon-leakage_en> [↑](#footnote-ref-8)
8. IMF Working Paper, Revisiting Carbon Leakage, August 2021. [↑](#footnote-ref-9)
9. https://carbonmarketwatch.org/wp-content/uploads/2015/10/CMW-Carbon-leakage-myth-buster-WEB-single-final.pdf [↑](#footnote-ref-10)
10. https://www.consilium.europa.eu/en/policies/green-deal/fit-for-55-the-eu-plan-for-a-green-transition/ [↑](#footnote-ref-11)
11. https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism\_en [↑](#footnote-ref-12)
12. https://www.gov.uk/government/consultations/addressing-carbon-leakage-risk-to-support-decarbonisation [↑](#footnote-ref-13)
13. https://mcmillan.ca/insights/publications/the-eus-new-carbon-border-adjustment-mechanism-in-action-impacts-on-canada-and-beyond/ [↑](#footnote-ref-14)
14. https://www.congress.gov/bill/117th-congress/senate-bill/4355 [↑](#footnote-ref-15)
15. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D0708&from=EN> [↑](#footnote-ref-16)
16. See <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/carbon-pollution-pricing-federal-benchmark-information.html>; Annex III, ICC Critical Design Features for Effective Carbon Pricing – A Business Perspective, 2022. [↑](#footnote-ref-17)
17. Please refer to the overview of current carbon pricing systems across Canada <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work.html>. As in the other footnote, I will refer back also to the report we published last year as in the annex there a comprehensive explanation. [↑](#footnote-ref-18)
18. https://icapcarbonaction.com/system/files/ets\_pdfs/icap-etsmap-factsheet-112.pdf [↑](#footnote-ref-19)
19. See Joint Statement issued at the BRICS High-level Meeting on Climate Change <http://brics2022.mfa.gov.cn/eng/hywj/ODMM/202205/t20220529_10694182.html> “We oppose the politicization of climate change issues and all forms of unilateralism and protectionism, emphasizing that unilateral measures violate the objectives and principles of the Convention and its Paris Agreement, and seriously undermine multilateral cooperation and the ability of the concerned countries to combat climate change. We oppose any measures to restrict trade and investment and setting up new green trade barriers with the pretext of addressing climate change, such as the imposition of Carbon Border Adjustment Mechanisms, which are incompatible with multilateral rules under the World Trade Organization.” [↑](#footnote-ref-20)
20. In March 2023 at the WTO Committee on Trade and Environment (CTE) meeting, China introduced [a proposal](https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/CTE/W251.pdf&Open=True) to deepen multilateral discussions on the trade aspects and implications of environmental measures, suggesting starting with discussions on the European Union's Carbon Border Adjustment Mechanism. India presented a paper on the increasing use of environmental measures, such as carbon border measures as protectionist non-tariff measures. [↑](#footnote-ref-21)
21. https://unctad.org/system/files/official-document/osginf2021d2\_en.pdf [↑](#footnote-ref-22)
22. https://iccwbo.org/news-publications/policies-reports/icc-recommendations-to-the-european-commission-on-the-implementation-of-the-carbon-border-adjustment-mechanism/ [↑](#footnote-ref-23)
23. [IMF Working Paper: Border Carbon Adjustments: Rationale, Design and Impact (2021)](https://deliverypdf.ssrn.com/delivery.php?ID=360003072099004007066011126097001030052038002020063091107016063018104019054064067127072009117026095100010023011118006125104126082125082106022119064064099082090019076125067086090020082122119&EXT=pdf&INDEX=TRUE) [↑](#footnote-ref-24)
24. World Bank State and Trends of Carbon Pricing 2023. Examples include Indonesia launching its ETS for coal-fired power stations; India passing legislation to establish a domestic carbon market, which could support a domestic ETS in the future; and Mexico started with the operational phase of its ETS. [↑](#footnote-ref-25)
25. In 2022 several countries reached bilateral agreements to cooperate under Article; Blue Carbon initiative based in UAE signed MoUs with Liberia, Tanzania , Zambia, At COP27 Switzerland in partnership with Ghana presented first projects to generate authorised emissions reduction under Article 6.2. In February 2023, Thailand and Switzerland launched the first Article 6 program in Asia. [↑](#footnote-ref-26)
26. Linking can be done either directly or indirectly and can lead to price convergence, thus offering efficiency gains. In a direct linking, emission allowances in one system can be used in another. The direct linking can be bilateral (two-way link), when allowances of both schemes can be used in either systems in both directions, or unilaterally (one-way link) if this is only the case for one system and the flow of allowances only operates in one direction. In indirect linking, two or more systems are linked to a common third system, for example, if both ETSs are linked to the same offset crediting system such as the Clean Development Mechanism (CDM) or potentially the new UNFCCC 6.4 mechanism under the Paris Agreement. Several examples for successful linking exist. [↑](#footnote-ref-27)
27. See ICC Article 6 Briefs [↑](#footnote-ref-28)
28. See <https://iccwbo.org/publication/icc-carbon-pricing-principles/> [↑](#footnote-ref-29)
29. See <https://www.ieta.org/The-Potential-Role-of-Article-6-Compatible-Carbon-Markets-in-Reaching-Net-Zero> Recent research has shown that cooperation through Article 6 has the potential to reduce the total cost of climate action by more than half and generate additional financing from $300 billion per year in 2030 up to $1 trillion per year in 2050 . Re-investing these funds in new climate efforts, Article 6 could enable additional emission cuts and could contribute to the enhancement of ambition in countries’ NDCs. [↑](#footnote-ref-30)