Response to the UK Government's 'Consultation on the introduction of a UK carbon border adjustment mechanism'

Introduction and key points

This briefing is written and endorsed by 10 civil society groups working on trade, climate and international development in the UK and globally. We strongly endorse ambitious climate action from the UK and the urgent and fair decarbonisation of international supply chains.

In answer to the UK Government's call for the views of stakeholders on how to design the UK Carbon Border Adjustment Mechanism (CBAM) "to ensure that it is effective, deliverable and meets our international obligations"[1], we wish to make the following points:

- **We recognise that the UK intends to introduce a comparable system to its key trading partners to secure its economic interests.**
- **A UK CBAM could have a disproportionate economic impact on the Global South.**
- **A blanket CBAM, applied without the correct flanking measures, is at odds with the UK's international commitments around climate justice and development.**
- **The UK should ensure it is on track with its own climate commitments and help to address issues with climate finance, debt vulnerability and technology transfer before or alongside the introduction of a CBAM.**
- **The UK should exempt economically vulnerable countries from the scope of its CBAM. This will have a negligible impact on the extent to which the UK CBAM can achieve positive climate outcomes. While these countries represent a fraction of the UK trade, the economic ramifications for them could be significant.**

Commentary on key points

A UK CBAM risks a disproportionate economic impact on the Global South
This risk is highlighted by the Centre for Inclusive Trade Policy, which found "the impact of the UK CBAM could be very significant for the exports of several Least Developed Countries (LDCs) and Low/Lower Middle Income Countries to the UK. For example, the share of regulated products in exports to the UK are 18.7% and 11.7% for Sierra Leone and Central African Republic respectively in 2022."[2]

Extensive analysis of the EU's CBAM, which takes a similar approach to the UK's proposed scheme, also highlights the economic risks for some countries in the Global South:

[1] Introduction of a UK carbon border adjustment mechanism from January 2027 (HMT/HMRC, 2024)
[2] Exempting Least Developed Countries from carbon border adjustments: A legal and economic analysis (Centre for Inclusive Trade Policy, 2023)

- UNCTAD found that under an EU CBAM with a carbon price of $44 per tonne of CO_2, exports from developing countries to the EU will be reduced by 1.4%. This reduces the income of developing countries by $5.9 billion, whilst developed countries see an increase of $2.5 billion.[3]
- A study by the ACF and the LSE found that the EU's CBAM will disproportionately affect African countries and could reduce Africa's GDP by up to 0.91% (at a carbon price of €87 per tonne modelling the current scope of sectors), an annual loss of $25 billion, equivalent to one quarter of promised international climate finance.
- Research by the Centre for Global Development identifies significant concerns for Mozambique, Mauritania, Sierra Leone and Senegal.[4]
- A recent study by the South Centre raised concerns around unfair practices concluding that the EU's CBAM discriminated against foreign producers.[5]
- A study by SEATINI Uganda found CBAM will have a range of economic effects including increasing pressure on public budgets, disrupting global value chains, and increasing the financial burden on developing countries.[6]

This approach is at odds with the UK's international commitments around climate justice and development

A CBAM which disproportionately harms the poorest economies would be incompatible with the UK's commitments on both development and climate. It would delay progress towards the Sustainable Development Goals, whilst also failing to adhere to the Paris Agreement's principle of 'common but differentiated responsibilities and respective capabilities' (CBDR-RC), which provides a clear logical and moral framework for designing climate measures which take into account the resources available to countries to shoulder the financial burden of tackling the climate crisis.[7] Transitioning to low-carbon forms of industrial production is an expensive process, and developed country governments have provided resources to support the decarbonisation of their domestic industries to date. These resources are not available to the poorest countries, which are already committing their public budgets to urgent priorities including tackling the impact of climate change as well as striving to build industries which are vital for their economic development. Additionally, accurately measuring emissions is a costly and difficult exercise and for low-income countries, most of whom have low emissions, this is not a priority.

Developing countries are responsible for only 21% of historic carbon emissions (1850-2011).[8] In 2019 the world's 46 Least Developed Countries (LDCs) , home to about 1.1 billion people, accounted for less than 4% of total world greenhouse gas emissions. Yet over the last 50 years, 69% of worldwide deaths caused by climate-related disasters occurred in

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[3] A European Union Carbon Border Adjustment Mechanism: Implications for developing countries (UNCTAD, 2021)
[4] An EU Tax on African Carbon – Assessing the Impact and Ways Forward (Centre for Global Development, 2022)
[5] How the EU's Carbon Border Adjustment Mechanism discriminates against foreign producers (South Centre, 2024)
[6] The Carbon Border Adjustment Mechanism and its impacts on EU-Africa Trade relations (SEATINI Uganda, 2023)
[7] Factories receive government support to grow the economy, cut emissions and reduce energy costs (gov.uk, 2023)
[8] Analysis from Centre for Global Development

LDCs.[9] Across Africa, the African Development Bank estimates that countries are losing between US$7billion and US$15 billion per annum due to climate impacts.[10]

The UK should exempt economically-vulnerable countries from the scope of its CBAM
The simplest and most effective way to ensure a UK CBAM does not carry an unfair economic impact on developing countries would be to exempt developing countries from the scope of its CBAM. The UK could employ the categories that it has used in its Developing Country Trading Scheme (DCTS) where trade preferences are given to LDCs and then to a wider group of Lower Middle Income Countries (LMICs) based on a mixture of economic vulnerability criteria and contribution to global emissions. This methodology has been widely accepted and has been successful in targeting countries that are economically vulnerable.

This could be a blanket exemption. Alternatively, the UK could explore ways of transitioning exempted countries into the scope of the CBAM by proposing:

- That the exemption could be revoked once t the UK meets a defined set of conditions relating to the provision of climate adjustment finance and transfer of green technology;
- That the exemption be revoked for countries which exceed an emissions threshold but don't meet a certain percentage of GDP spent on climate emergency measures;
- An exemption for SMEs based in developing countries, by adapting the existing exemption currently offered to firms exporting less that £10 000 annually to the UK;
- To apply a transition period of ten years to allow countries the time to decarbonise their industries.

Such measures will have negligible impact on the extent to which the UK CBAM can achieve positive climate outcomes
Exempting economically-vulnerable countries from the UK CBAM will not compromise the effectiveness of the mechanism in achieving its stated climate aims.

LDC producers lack the resources and industrial capacity to undercut richer countries by ramping up their production of polluting exports. As the UK government's own analysis lays out:

> "UK imports from least developed countries (LDCs) make up a small proportion of total UK CBAM imports: <0.05%. Data is limited on the exports of LDCs. However, using a range of sources the government estimates that, on average, less than 1% of LDCs' total exports of CBAM sectors go to the UK."[11]

In addition, the rules of origin criteria in UK trade and investment agreements preclude the risk that non-LDCs could sell goods to the UK via LDCs as a means through which to avoid taxation.

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[9] UNCTAD sets out actions to support least developed countries in the global low-carbon transition (UNCTAD, 2022)
[10] Focus on Africa (African Development Bank, 2023)
[11] Consultation on the introduction of a UK carbon border adjustment mechanism (gov.uk, 2024)

The UK should also ensure that CBAM is part of a broader package of measures, including support for developing countries' climate action.
The poorest countries have only limited financial and technological resources to deal with the severe impacts of climate change and decarbonise their industries. For example, thirty-four of the world's poorest countries together spend US$29.4 billion on debt repayments but only US$5.4 billion on measures to reduce the impact of the climate emergency.[12]

The focus for climate action must be in the countries with the biggest historical responsibility for and current source of emissions, and the greatest capacity to take action. In this context, the UK has a significant role to play and must show strong commitment. Its standing has been significantly weakened due to recent rollbacks of domestic net zero policies, including delaying the phase out of petrol and diesel cars, weakening the phase out of gas boilers and dropping plans to require homeowners to upgrade properties. There is uncertainty regarding the UK's £11.6 billion commitment, as part of the US$100 billion climate fund, and its financial data are not completely transparent, nor are they broken down by annual targets.[13] The UK should ensure its domestic policies are aligned with net zero commitments before it uses unilateral measures to put pressure on countries in the Global South.

Article 4.7 of the UNFCCC and Articles 10.5 and 10.6 of the Paris Agreement emphasise the need for technology development and transfer. However Global South countries are struggling to access and acquire climate technologies, and crucially to move to adaptation and endogenous technology development. Tech transfer will need to include not just the transfer of goods but also of know-how and capabilities and the establishment of institutions and policies that can facilitate technological uptake and encourage local innovation. Developing countries have already identified their technology transfer priorities and the barriers to accessing these, through the Technology Mechanism. The UK should consider the impact of provisions in its trade agreements, particularly intellectual property provisions, and how they impact on tech transfer. It should also play a positive, coordinating role in considering a waiver at the WTO for tech transfer, similar to that recently agreed for Covid vaccines.[14] This will be a crucial step in supporting the achievement of Global South climate goals and in preparing them for measures such as the CBAM.

Global South countries are currently seeing a significant increase in their debt burden: LDCs have seen their debt-to-GDP ratio grow from 48.5% in 2019 to 55.4% in 2022, the highest since 2005. As of April 2023, six LDCs were in debt distress and 17 were at high risk of debt distress. Their total external debt reached US$570 billion in 2022. Their fiscal space is being significantly squeezed by the Covid19, the climate emergency and the war in Ukraine, all of which have undermined investments in public services and the green transition.

There is an urgent need for a lasting, multilateral solution to the debt crisis and for the mobilisation of both development and climate finance. A CBAM would be adding to this burden; it is of particular note that the Central African Republic is currently both on the list of countries at high risk of debt distress and also potentially adversely impacted by a UK

[12] Least Developed Countries Report (UNCTAD, 2023)
[13] Rapid review: UK aid's international climate finance commitments (ICAI, 2024)
[14] Addressing the Climate Technology Gap in Developing Countries Through Effective Technology Transfer (TESS, 2023)

CBAM.[15] The UK must play a strong role in addressing this debt crisis so that funds can be freed up for climate action and must take into account the fiscal space available to countries before it imposes a CBAM.

At the same time as their debt burden increases, they are receiving a tiny proportion of investment in transition industries. According to the International Renewable Energy Agency, countries defined as 'least developed' by the IPCC attracted only 0.84% of renewable energy investments on average between 2013 and 2020. In 2021, investment in renewable energy per capita in Europe was 41 times that in Sub-Saharan Africa.[16] It is therefore vital that the UK plays its role in supporting investment and providing adequate climate financing including through the expansion of schemes such as the Just Energy Transition Partnerships.

This lack of investment contributes to the low levels of capacity for innovation in the Global South. At present according to the World Intellectual Property Organisation most patents for low-carbon technologies are concentrated in OECD countries. Japan, the US, Germany, South Korea, and France together accounted for 75 per cent of the low-carbon inventions patented globally from 2005 to 2015.[17] The WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement enforces patent protection, but also allows for the use of compulsory licensing in certain situations so that technologies can be used without the permission of the patent holder. So far this has only been applied to ensure access to critical medicines, but, given the nature of the climate emergency, the UK could work with partners at the WTO to make a strong case to extend this understanding to low-carbon technologies. It could also champion patent pools to accelerate the development of green technologies and foster cooperation amongst countries.[18] This would be in line with commitments to technology transfer under the UNFCCC and would help reduce the cost of transitions in developing countries.

The UK could also ensure there are strong incentives for British enterprises and institutions to transfer technology as per Article 66.2 of the TRIPS agreement, particularly if requested by LDCs in sectors covered by a CBAM, and to report on the effectiveness of this transfer.

Conclusion

In designing and rolling out the Carbon Border Adjustment Mechanism, the UK has an opportunity to demonstrate its commitment to global development and climate justice. Ensuring the costs of the urgent transition away from polluting industries are not borne by the Global South, which has contributed such a small percentage of global emissions and should be given the space to prioritise its own economic development, is a moral imperative.

[15] Least Developed Countries Report (UNCTAD 2023)
[16] Global Landscape of Renewable Energy Finance 2023 (International Renewable Energy Agency, 2023)
[17] Intellectual Property Rights and the Transfer of Low-Carbon Technologies to Other Countries (LSE Business Review, 2018)
[18] Law and Climate Atlas (Centre for Climate Engagement, Hughes Hall)

This consultation response is made jointly by ten organisations:

African Forum and Network on Debt and Development

African Future Policies Hub

Friends of the Earth England, Wales & Northern Ireland

Global Institute for Sustainable Prosperity

Global Justice Now

Southern and Eastern Africa Trade Information and Negotiations Institute

Tax Justice Network Africa

Trade Justice Movement

Transform Trade

Unison

For further discussion about the suggestions in this response, please contact tom.wills@tjm.org.uk in the first instance.