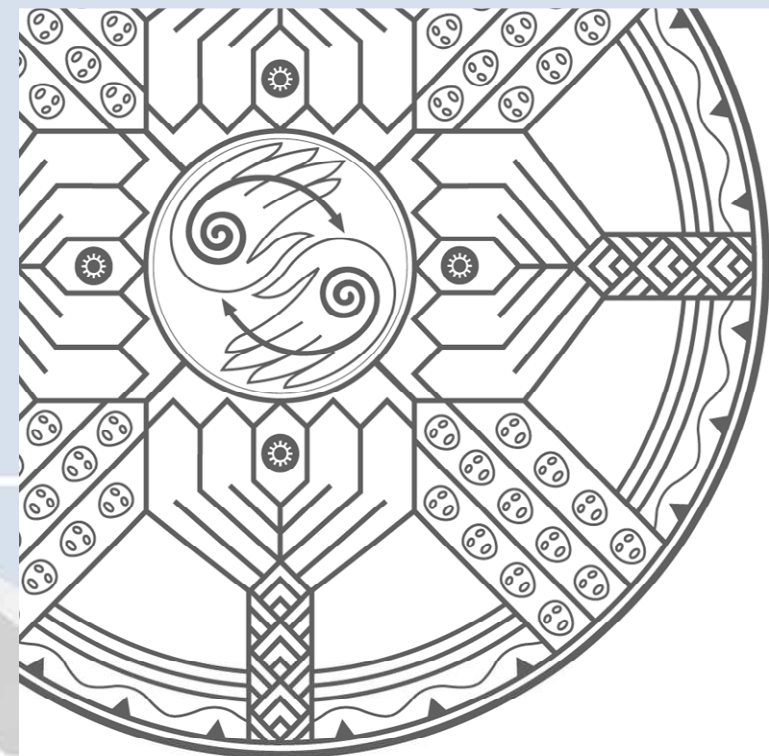


## BCAs and LDCs: Key Issues

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Aaron Cosbey



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## Outline

- What are BCAs? Who is proposing them?
- How does the proposed BCA work in US law?
- What countries and goods would be affected?
- Issues for LDCs

## Context: What are BCAs?

- They are attempts to “level the playing field” between countries with tough action on climate change and countries without.
- They are applied at the border.
- They can be either a tax adjustment (in the case of a carbon tax) or a requirement to purchase allowances in the domestic regime.

## Context: Who is proposing them?

- They exist in the draft law passed by the US House of Representatives: *America Clean Energy and Security Act*. Not yet law – needs to be passed by Senate, and combined.
- They may yet be applied in the EU. France has been a strong advocate. Subject to review.
- Other annex I countries will face same pressures.

## How does the US model work?

- Two triggers: one to bring the regime into being, and one to bring particular sectors under its coverage.
- Also there are country-based exceptions.

## The first trigger: bringing BCA into being

- Lack of climate change agreement by 2018.
  - All major emitters contribute “equitably”
  - Recognizes competitive imbalances that lead to leakage, and allows Parties to address.
  - Sanctions for Parties that fail to meet their targets

## The Second Trigger: Which sectors?

- Must be energy-intensive trade-exposed (EITE)
- Analysis shows that this probably includes few sectors, but among them would be the usual suspects:
  - Cement, aluminum, pulp and paper, steel, chemicals
- Will also cover sectors that use substantial amounts (not defined) of these goods as inputs

## The Second Trigger: Which sectors?

- In the EITE sectors, trigger occurs if >15% of US imports are from countries that fail *all* of these criteria:
  - Party to international climate agreement that includes the US, and bound by economy-wide GHG reduction targets at least as stringent as the US targets.
  - Party to multilateral or bilateral sectoral emissions reduction agreement with the US
  - The country's GHG- or energy-intensity in the sector is not more than that of the US

## Country Exceptions

- The following countries are not covered:
  - Least-developed countries
  - Countries with less than 5% of US imports in the sector, *and* less than 0.5% of global GHG emissions
  - Countries that meet one of the three country criteria specified above (sectoral trigger)

## What countries, sectors would be targeted?

Share of US imports

	Steel	Aluminum	Chemicals	Paper	Cement
<b>Brazil (1.9% of global GHGs)</b>	8.24				
<b>China (12.0%)</b>	7.11				14.4
<b>Colombia (0.4%)</b>					5.49
<b>Mexico (1.1%)</b>	13.08				6.49
<b>South Korea (0.9%)</b>	5.67				7.94
<b>Thailand (0.7%)</b>					8.6
<b>Trinidad &amp; Tobago (0.05%)</b>			41.58		
<b>Canada (2.3%)</b>	18.56	51.02	19.3	66.89	16.06

*Adapted from Levelling the Carbon Playing Field, based on UNFCCC and Comtrade databases.*

## Why Should LDCs Care?

- First: they may be covered in future.
  - They may grow into coverage
  - Other markets may implement similar schemes, different details and exemptions
  - Scope of covered goods may grow
- Second: the principle of multilateralism
  - US is determining adequacy of commitments, acceptable level of effort, methodology for calculating embodied carbon, tariff levels. No reference to international norms, standards, principles

## Concluding thoughts

- BCAs are coming
- Vowing to take them to the DSM is a poor solution
- Need some agreement on how best to use them
- Where to make such agreement?

**Aaron Cosbey**  
**[acosbey@iisd.ca](mailto:acosbey@iisd.ca)**

**[www.iisd.org/trade/crosscutting](http://www.iisd.org/trade/crosscutting)**

**<http://www.iisd.org>**