



The European Union's CBAM: averting emissions leakage or promoting the diffusion of carbon pricing?

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The European Union's (EU) Carbon Border Adjustment Mechanism (CBAM) has garnered wide attention as a companion policy to domestic carbon pricing under the European Union Emissions Trading System (EU ETS). It is an essential element of the ambitious decarbonization strategy set out in the European Green Deal, a transformative agenda first announced by Ursula von der Leyen in July 2019 during a speech outlining her political guidelines after being nominated to lead the European Commission, and is critical to the delicate political balance of interests underlying her presidency.

Long shunned by the political establishment in Brussels and Member State capitals as a way to manage the challenging nexus between trade and the environment, the CBAM heralds a notable shift in EU strategy, reflecting the adoption of a more confrontational stance in a geopolitically and economically fragmenting world. It is also emblematic of a broader trend that has seen the EU leverage conditional access to its markets in order to secure economic competitiveness while extending social and environmental standards to trade partners, a phenomenon often described as the 'Brussels Effect'.

Surprisingly, however, the stated objective of the CBAM – preventing the risk of carbon leakage, that is, the relocation of emissions to foreign jurisdictions as a consequence of differences in climate policy ambition – is a problem for which the empirical evidence, to date, is only limited. What is more, the complexities of CBAM implementation, coupled with regulatory gaps, political and legal vulnerabilities, and potential circumvention opportunities, all raise questions about its ability to effectively address leakage were it to ever occur.

One of the less foreseen consequences of the CBAM, meanwhile, has been its role in accelerating the adoption of carbon pricing around the globe. At first glance, numerous countries with trade exposure to the EU have expedited or expanded their carbon pricing strategies in response to the CBAM. Although not officially intended,



this observed dynamic has been described as a promising 'stepping stone' towards establishing a global carbon price.

Following over a decade of hesitation about the use of border carbon adjustments (BCAs) within the EU institutions, the abrupt embrace and rapid advancement of the CBAM offers a valuable case study of the EU's increasing turn to unilateral tools to manage the environment-trade nexus. It thus contributes to the growing body of scholarship studying the complex relationship between international trade and the environment, and EU efforts to better integrate trade and environmental policies and practices in order to further their respective objectives.

Drawing on the foregoing discrepancy between stated goals and observed effects, this article applies an analytical lens that frames the CBAM as a policy 'output' of the EU's attempt to manage the environment-trade nexus, and thus as a measure of EU institutional effectiveness, that is, the degree to which EU legislation has been able to integrate environmental policy and trade objectives; it then contrasts this policy output with its likely intended and unintended outcomes, which serve as a measure of impact effectiveness, that is, of the ability to actually advance policy objectives via tangible consequences.

What this working paper seeks to ascertain, thus, is whether the CBAM is a suitable instrument to advance its stated objective, namely to mitigate the risk of leakage, one of the oldest and most persistent problems identified at the environment-trade nexus; or if, instead, its main contribution to improved alignment of trade and environment policies will ultimately be the diffusion of carbon pricing, an unstated objective that nonetheless can contribute to greater convergence of environmental policies and thus reduced distortions of international trade. In answering the foregoing question, this article highlights the role of indirect policy outcomes and their contribution to the real-world impact of EU climate and trade policy.

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