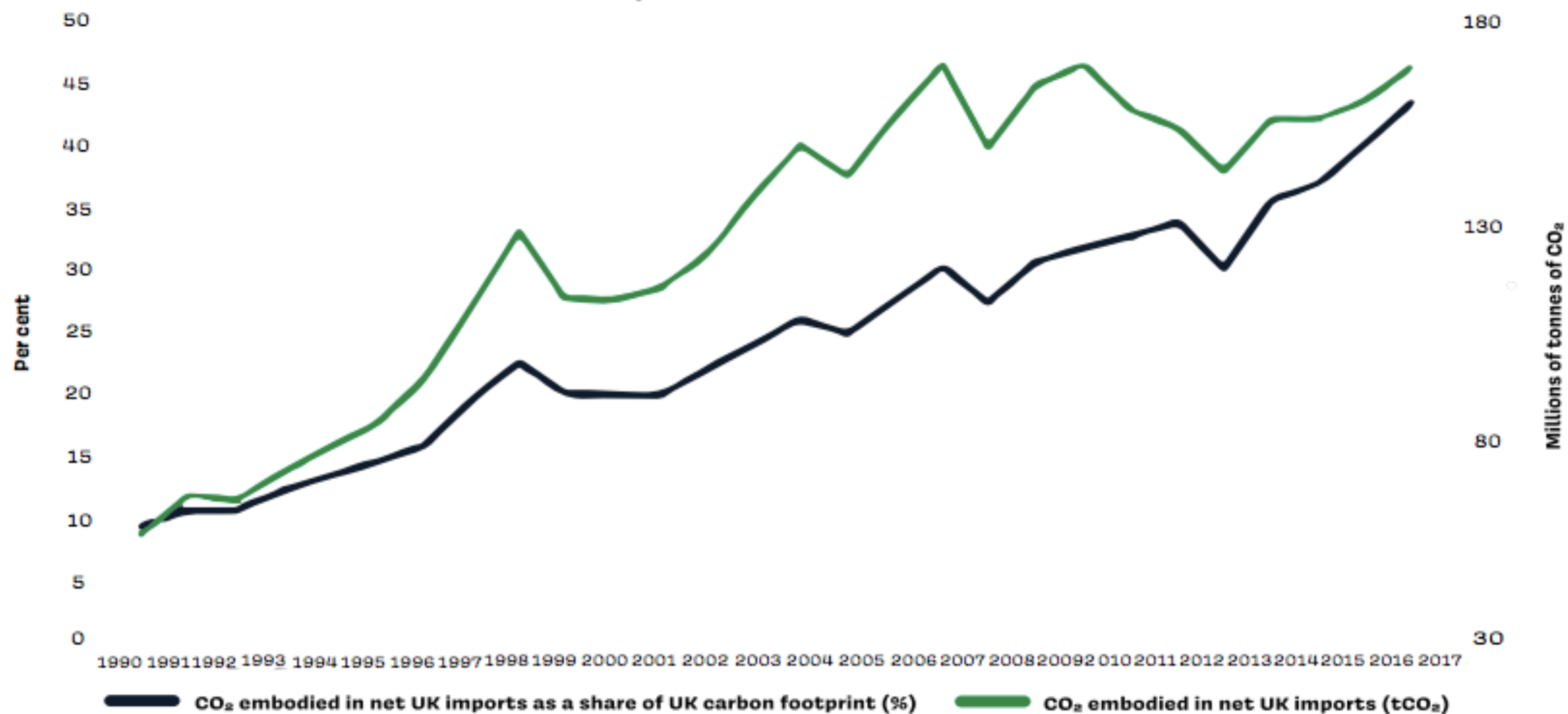


SHOULD THE UK INTRODUCE A BORDER CARBON ADJUSTMENT MECHANISM?

Chart 1: CO₂ embodied in net UK imports



Source: Author's calculations based on Global Carbon Project data (2019).

What is a BCA?

A simple BCA works as follows:

- Country A applies a domestic carbon tax on producers (i.e. £20/tonne CO₂ emitted)
- Country A then levies an equivalent tax on goods imported from countries that do not have a similar domestic carbon pricing regime in place
- This means that all goods consumed in Country A are subject to the same climate-related costs and ensures a level playing field for domestic producers

BCA design options

1. Consumption levy

Levy a carbon charge, proportional to the carbon emitted during production, on all goods at the point of consumption, rather than on producers, no matter where in the world the goods come from.

2. A production charge

Levy a carbon charge on UK producers. In this case, a BCA could require the importer to pay a duty benchmarked against the carbon cost borne by the average UK-based company when producing a similar product.

3. Linked to ETS

If the UK's domestic carbon price continues to be set by its ETS, the BCA design would be similar to that applied alongside a carbon charge. However, in this scenario the importer would be required to pay an import duty benchmarked against the cost faced by the average EU-based producer when purchasing the necessary ETS carbon permits to produce a similar product domestically.

Questions the UK Government will need to answer

If the UK does decide to introduce a BCA, there are a number of key questions it will need to consider and answer. These include but are not limited to:

What approach should the UK take to setting a domestic carbon price?



Does the UK want to introduce a BCA?



What products should a BCA apply to?



Should UK exporters receive a rebate?



Should a BCA replace existing free allowances or work alongside?



How precise should the BCA be?



Should the BCA apply to imports from developing countries?



What should BCA revenue be used for?