

# How Vulnerable is India's trade to Possible Border Carbon Adjustments in the EU

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ARTNeT / WTO Research Workshop on Emerging Trade Issues in Asia and the Pacific: *Meeting contemporary policy challenges*  
Nakorn Pathom, Thailand  
5 April 2012

# Structure of the presentation

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*Part I:*

# Competitiveness, Carbon Leakage and Border Measures in the EU and beyond

# Border carbon adjustments at centre stage of trade-climate change interface

- Climate-related border measures have turned out to be the most contested issue in the trade-climate change interface in the recent past.
- The European Union (EU) as well as the United States are contemplating application of these border measures on imports from countries not implementing comparable greenhouse gas mitigation policies with the aim of obviating the problem of 'carbon leakage'.
- The EU, for instance, has included such proposals in its post-2012 climate change and energy package finalized in April 2009 (henceforth referred to as the Directive).
- The emerging economies are among those that are likely to be affected by such unilateral trade measures in the EU.

# The European Union Emissions Trading Scheme (EU ETS)

- With the aim of meeting its Kyoto commitments, the EU has set in place the EU ETS.
- The EU ETS is by far the largest cap and trade system operating in the World.
- First phase of EU-ETS ran from 2005-07 with the second phase aligning with the KP first commitment period (2008-12).
- In the 1st and second phases the EU-ETS covers approximately 12,000 installations representing approximately 40% of the EU's carbon dioxide emissions.
- The EU ETS sets a cap on 'installations' above a certain size in six industrial sectors: energy production, ferrous metals production, cement manufacture, ceramics and brick manufacture, glass production, pulp & paper.

# EU's Post-2012 Climate-Energy Package

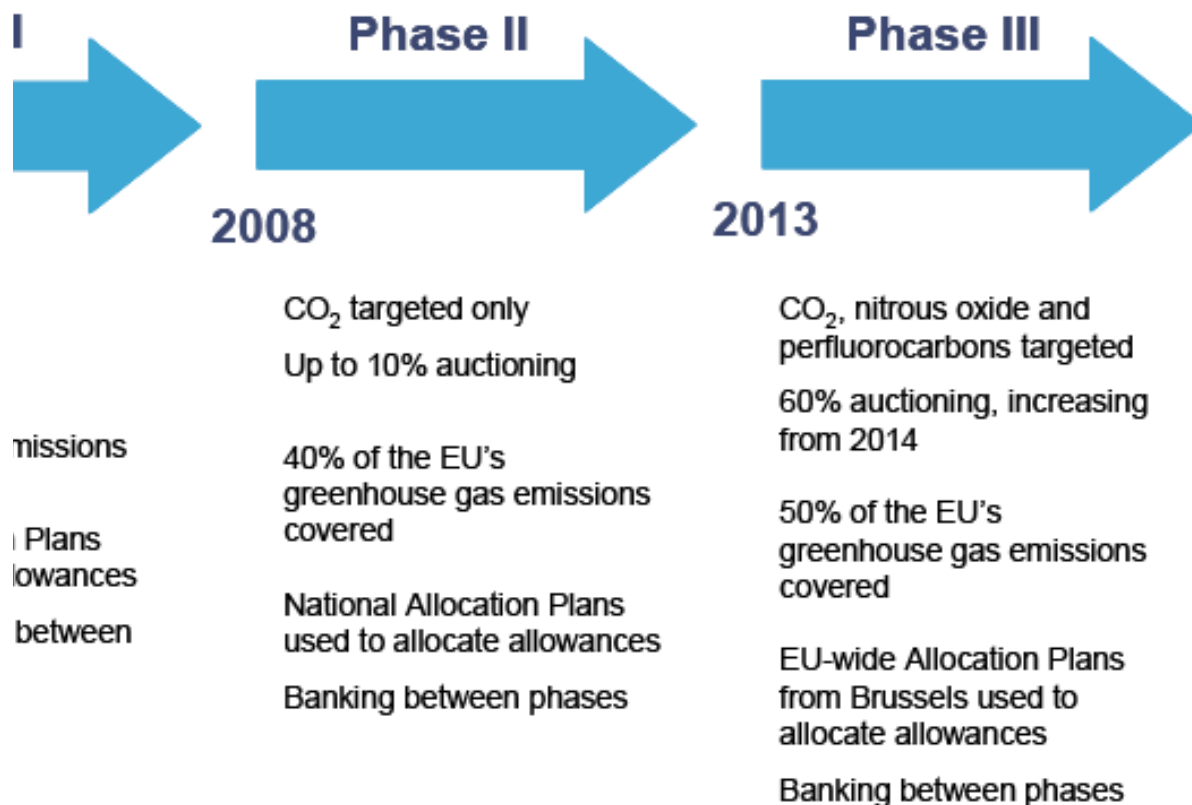
- In January 2008, the European Commission unveiled a package of proposals *inter alia* on amending the EU ETS in the third phase, i.e. 2013-20, which was finally approved in April 2009 (hereinafter the '2009 Directive').
- The package *inter alia* aims at achieving at least a 20% reduction in green house gas (GHG) emissions from 1990 levels by 2020, with provision for raising the target to 30% in the event of an international agreement (under the UNFCCC) committing other developed countries to comparable emissions reductions and economically more advanced developing countries to contributing adequately according to their responsibilities and respective capabilities.
- With this aim in view, the 2009 Directive includes, among other things, an array of measures towards strengthening and expanding the EU ETS beyond 2012 and improving its functioning.

# Strengthening of the EU ETS post-2012

The measures aimed at strengthening of the EU ETS include, among others, the following:

- a much larger share of allowances to be auctioned in the third phase (2013-20) instead of being allocated for free, which is the predominant practice under the first two phases.
- the scope of the ETS to be extended with the inclusion of a number of new sectors like aluminium and ammonia, as well as two more greenhouse gases (nitrous oxide and perfluorocarbons) under its purview (in addition to the hitherto included carbon dioxide).

# The EU ETS architecture in three phases



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