

COP28 MEDIA BRIEF

TRADE & SUPPLY CHAINS

Climate change and global trade are becoming increasingly interlinked. On one side, an evolving trade in environmental goods and critical minerals is essential as industry adapts to achieve the energy transition. On the other, countries are becoming more concerned about trade carbon embedded in products and the issue of carbon leakage

The ongoing introduction and evolution of climate-related trade measures, such as the EU Carbon Border Adjustment Mechanism (CBAM) which went live in October 2023, are forcing governments and businesses to focus on their “climate competitiveness” - how competitive economies and industries will be when the climate impact of trade is taken into account

COP28 will recognise the evolving situation, by holding a Climate and Trade themed day for the first time. It will focus on the interconnectedness of trade and climate, and how governments and businesses need to adapt the global trading system to support the move to net zero



If you read one report: [The Start of CBAM: A Major Landmark for Global Trade and Carbon Accounting](#) (Sep 2023)

TOP 3 BCG DATA POINTS



CBAM will especially impact emerging markets. China (<20% of total exports to EU), Turkey (>40% of total exports) and India (>25% of exports), because iron, steel and aluminium as well as fertilizer exports are heavily exposed to CBAM.



17% of all manufactured goods traded are environmental goods. A result of increased trade in green goods among blocs of friendly countries



Export restrictions on critical raw materials have increased fivefold since 2019, according to the OECD, with **10% of global exports of these materials facing at least one restrictive measure**

BCG POSITION

An effective global trade architecture is critical to achieving decarbonisation and climate goals. However, as different parts of the world move at different paces, it is important to pay attention to the consequences of fragmented efforts to deepen resilience and address carbon leakage. Multinationals will face challenges dealing with multiple rules impacting global trade, while less developed countries may face significant loss of access to developed markets. The greater consensus we can achieve on issues such as carbon accounting, domestic green subsidies and support for developing countries, the better

ON THE RECORD



The global trading system has a key role to play in supporting climate action. As the world focusses on delivering the energy transition, and decarbonising supply chains, countries and companies need to understand the new opportunities and challenges this brings. Ensuring carbon competitiveness in this new reality will be the key to success



—Tim Figures, Associate Director, London

BCG'S TOP 3 TAKEAWAYS

- 1 Green incentives come with increasing strings attached.** Regulation and incentives prioritize domestic rather than global trade. Understanding the implications of these conditions is key.
- 2 Business leaders must urgently evaluate their carbon competitiveness.** Understanding the impact of carbon pricing is key to assessing your future competitiveness.
- 3 We can't decarbonise without a global trade approach.** At COP28, leaders must aim for consensus on how global trade can support the race to net zero, rather than become an obstacle to it.

WHAT WE ARE ADVISING OUR CLIENTS TO DO

Five recommendations for governments

1. Align carbon accounting and reporting standards
2. Agree principles for the deployment of green subsidies and scale public procurement
3. Promote the green economy and development programmes
4. Develop climate clubs to be as inclusive as possible
5. Use international institutions coherently

Five recommendations for businesses

1. Assess your carbon competitiveness
2. Understand how resilient your supply chains are
3. Take advantage of new investment opportunities
4. Work with your networks
5. Engage with policy-makers

ADDITIONAL PROOF POINTS

Recent policy developments have raised carbon competitiveness questions

- The United States' Inflation Reduction Act (IRA) has linked local content requirements (LCRs) to green subsidies, while the European Union's response, including the Green Deal Industrial Plan, the Net Zero Industry Act and the Critical Raw Materials Act are having a similar effect.
- The EU is addressing a key factor underpinning its domestic carbon competitiveness - the risk of "carbon leakage" - through its Carbon Border Adjustment Mechanism (CBAM), which for the first time plans a carbon price on certain imports into the region.
- The G7 is focused on a climate club that would involve a group of nations pledging to build a common understanding of the effectiveness and economic impacts of climate policies (including carbon pricing).

The EU's CBAM can be a model for others to replicate, with far reaching impacts across global supply chains

- CBAM's effectiveness, being the first such system in the world, is yet to be tested. However, it is likely to have profound consequences for international trade, especially if other major economies adopt similar systems.
- CBAM will have consequences for four different groups - non-EU producers, importers, EU consumers and third country governments. Each of these groups needs to think about the strategic and operational challenges - from input cost increases to new border paperwork requirements - that the CBAM will require.
- This is just the start. CBAM will evolve over the coming years in terms of coverage and complexity, and those impacted need to think about the likely trajectory of regulatory development as much as what the rules say today.

A tense geopolitical landscape threatens global trade coherence

- Emissions have declined, but trade wars have broken out over measures to protect domestic firms from carbon leakage. Large green subsidies are available, conditional upon local content requirements (LCRs). Global growth has slowed, while inflation has skyrocketed.
- Some countries have banded together in climate clubs to secure resources and align on climate measures with adverse impacts on trade competitiveness. These accelerate the divide between large markets in the Global North and the Global South, create a complex landscape for business to navigate and curb the spread of innovation.
- Green investment is pulled towards markets with generous subsidy programmes. A solidarity fund for adaptation has been set up for the poorest nations, but disbursements have stalled due to worsening global relations.

There are very real and practical applications of CBAM which consumers in Europe and producers

- One area to watch is how the CBAM will cope with programmed complex goods containing large amounts of steel, aluminium, and plastics - such as cars.
- An average mid-sized family car contains around 7 tonnes of embedded CO2 emissions. Assuming a projected EU carbon price of around EUR110/tonne, this implies such a car would pay a CBAM levy of around EUR 775 at the border when being imported into the EU.
- Calculating and reporting emissions will be a challenge which will require new, technology-based solutions to implement.
- Also, the levies can be significant. For example: The EU imported around 35 million tonnes of steel in 2022, mainly from countries such as IN, CH, SK, TR, and UK. If the CBAM had been fully in force, and assuming a projected carbon price of EUR110/tonne, importers would have paid nearly EUR 7 billion in CBAM levies on this steel. (data source: Eurostat, BCG analysis)

RELATED BCG REPORTS

[What Future for Climate and Trade? Scenarios and Strategies for Carbon Competitiveness](#)

BCG TRADE AND SUPPLY CHAIN EXPERTS:



Tim Figures
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Tim can speak to:
Global and EU trade affairs |
Trade patterns | Climate and
sustainability policy



Ed Rhys Jones
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Ed can speak to:
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