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TOWARDS LOW CARBON TRADE: IS CENTRAL ASIA READY?

THE EU CBAM AND IMPACT ON CENTRAL ASIAN TRADE

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Overview

- CBAM in Context
- Central Asia's CBAM Exposure
- Broader Context of Climate-Related Trade Measures
- Support Options for Exporters



THE CBAM IN CONTEXT



CBAM in Context

- EU Green Deal: A set of policies that aims to achieve GHG emissions drop of 55% over 1990 levels by 2030. Highly ambitious.
- As part of that plan, reform of the EU Emissions Trading System (ETS), Centerpiece of EU climate policy, in force since 2005. European Green Deal will lower the cap, phase out free allocation.



CBAM as a tool to prevent leakage

Leakage: Climate policy in one jurisdiction causes emissions to shift from that jurisdiction to another.

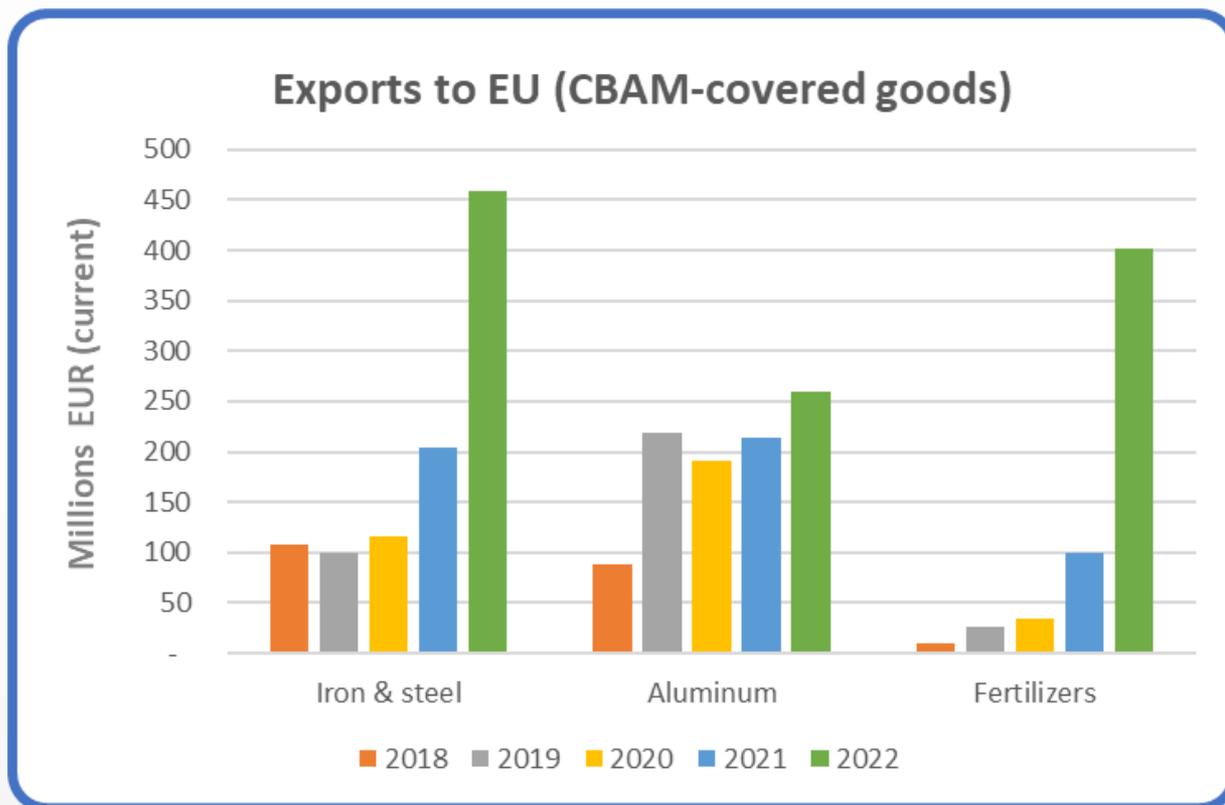
Can happen through industry relocation, loss of market share, or diversion of greenfield investment.

The EU's CBAM's stated objective is to prevent leakage as ETS reform imposes the full cost of carbon on EU producers and consumers.

Evidence of the existence of leakage is mixed, but most agree that carbon costs have been too low to impel much leakage – that it will be an increasing risk as carbon costs rise to meaningful levels.

CENTRAL ASIA EXPORTS: RELEVANCE IN CONTEXT OF CBAM

Existing exports of CBAM-covered goods from Central Asia*



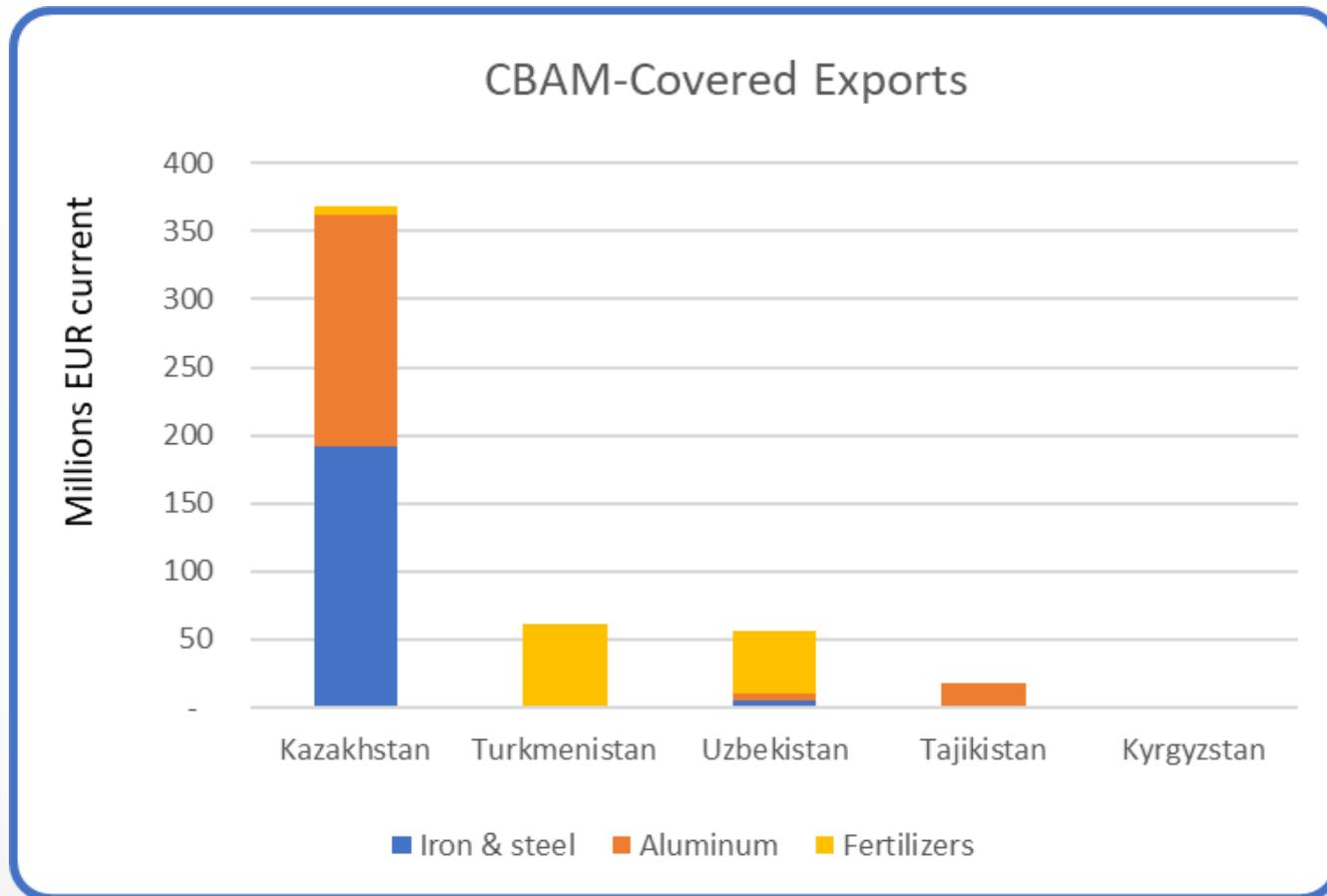
The figures in the graphs are based on total exports. Actual impacts will be some fraction of those totals.

Actual impacts will vary depending on GHG intensity of production in Central Asia.

Also note that impacts will vary depending on regime design. More coverage, for example, would mean greater potential impacts.

**For the purposes of this presentation - the following countries from Central Asia were covered in the analysis: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan*

Existing exports, 5-year average, by country



Note: Cement and hydrogen not shown – no exports to the EU in these products.

Exports to EU as a percentage of global sectoral exports



	Iron & steel	Aluminum	Nitrate Fertilizers
Kazakhstan	3.10%	19.62%	3.14%
Uzbekistan	0.03%	0.00%	18.61%
Turkmenistan	-	-	18.34%
Tajikistan	-	11.68%	-
Kyrgyzstan	0.29%	-	-

2022 figures, except for Tajikistan and Turkmenistan world exports based on 2021. Sectors are: iron and steel (72 & 73), aluminum (76) and nitrate fertilizers (all CBAM categories).

	CBAM-covered exports to EU (€, 2022)	% of GDP
Kazakhstan	712,111,943	0.34%
Kyrgyzstan	1,123,202	0.05%
Tajikistan	3,359,167	0.16%
Turkmenistan	175,245,703	1.57%
Uzbekistan	227,749,250	1.56%



Total CBAM-covered exports as a percentage of national GDP

2022 figures. Amounts in Euros. GDP for Turkmenistan is extrapolated from 2021 data.

BROADER CONTEXT: CLIMATE-RELATED TRADE MEASURES

Other CBAM-like mechanisms

- Canada and the UK have completed consultations on what border carbon adjustment (BCA) might look like in those countries. Both have strong carbon pricing regimes.
- Australia has announced that it will consider BCA as part of the reform of its climate pricing regime (Safeguard Mechanism)
- Japan announced in its 2020 Green Growth Strategy that it would explore BCA.
- Chinese Taipei has announced that it will implement a BCA regime as part of its coming carbon pricing regime.
- USA has repeatedly pledged to implement some sort of a BCA regime.

Other Climate-Related Trade Measures

CBAM/BCA is just one measure of many that are increasing in scope – measures that consider the embodied carbon in traded goods:

- EU Deforestation-Free Products Regulation (in law)
- US-EU Global Arrangement on Sustainable Steel and Aluminum (in negotiation)
- EU Methane Regulation (in final negotiations)
- US (state-level), Canadian, clean fuel standards (in law)
- US Green Procurement standards (in law)
- Multiple private-sector off-take agreements and demands to decarbonize up the value chain

POLICY OPTIONS - TO SUPPORT EXPORTERS

Exporting country policy options (1/2)

1) Compiling statistics on national sectoral emissions and transmitting to the EU

Important to avoid products being subject to second-default assumptions - if the EU database is not extended to include Central Asian default values

2) Lobbying the EU to support exporters' costs of certifying data

Potential use of revenues from CBAM.

3) Lobbying the EU to build exporters' capacity to comply with CBAM

Support to improve the government and private sector's carbon accounting measures, foster national accredited verifiers, conduct information exchange/workshop sessions.

4) Build exporters' capacity for internal carbon accounting

To meet regulatory requirements of CBAM and potentially other buyer requirements

5) Support local accredited verifiers to the CBAM standard

To lower costs of compliance for domestic producers.

How Calculates Carbon Content

First Scenario

- Authorized declarant shows **actual third-party verified data**, for direct emissions; uses national average GHG intensity default for scope 2 (indirect) emissions.

Second Scenario

- If the direct emissions data cannot be determined by the authorized declarant, must use a default value: the average emissions intensity for the country of export for that class of goods.

Third Scenario

- If EU database has no default data for a particular sector and country of export: assumed GHG intensity equal to the average of the EU's X% most emissions-intensive producers.

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CBAM Verification of Emissions Data

- CBAM's first option for calculating carbon content demands **actual data, verified by an organization accredited by the EU.**
- Any body already accredited (by member states) under the EU ETS is automatically accredited for CBAM. Includes major international assurance agencies: DNV, Veritas, SGS, EY.
- Accreditation procedures will be finalized in the implementing legislation.

Exporting country policy options (2/2)

6) Conduit of information for exporters

Gather and disseminate information on requirements and likely developments in the CBAM

7) Lobbying in the WTO and elsewhere for coordination among countries considering CBAM

To enable foreign producers to face similar requirements across varying regimes.

8) Ramping up existing support for industrial transformation in energy-intensive, trade-exposed sectors

Thereby making them less vulnerable to border carbon adjustments and other such requirements in the global green markets

9) Putting in place national carbon pricing.

To retain funds that would otherwise be transmitted to the EU; and domestically in order to support industrial transformation.

10) Lowing the GHG-intensity of the national electricity grids

In anticipation of when CBAM and other such instruments would cover indirect emissions.



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