



# Professionals in International Trade

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Carbon Border Adjustments:  
Global Controls Raise Concerns for Unprepared Australian Exporters

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## Executive Summary

The following article has been produced by the International Trade Policy Committee of the Professionals In International Trade (PIT) organisation.

As one of its objectives, PIT prepares research papers focusing on significant issues in international trade. This is done in order to provide perspective of informed trade practitioners, using recognised conventions, to assist policy makers. The articles are prepared initially for comment by relevant government departments and summarised versions are subsequently made available via the PIT website. The following paper is the second of the 2021 series.

The following paper surveys at a high level, current opinions and data regarding the origins, trends, and potential outcomes under a CBAM international trade regime and offers some potential directions for enquiry for policy makers to align an Australian response to global climate change initiatives. In particular, the potential impact of CBAM-like policies on Australian industry in general is considered, along with some concerns regarding the access and financial implications of carbon barriers. Finally, the policy alignment and actions of the Australian government, in the context of international trends, are considered in terms of the needs of businesses operating in global markets that consider environmental factors.

## Introduction

As the world seeks to recover from the COVID-19 pandemic, companies and Governments are looking more closely at the impact of trade on the environment. Discussions on global warming and net-zero emission targets are intensifying in the lead-up to the Conference of Parties 26th Summit (COP26) in November 2021. Climate action commitments are becoming more ambitious, as a result of the need to manage the impact of carbon on the environment and to create low carbon economies. Neither the breadth, nor the intensity of the international climate debate is surprising. In fact, Australian commentators predicted it.

Dr Martin Parkinson, one of Australia's most senior public servants, in his 2008 article<sup>1</sup> and his speech on "Charting the course towards a low carbon economy" at the Australia Institute noted that "the degree of structural adjustment in Australia, and the economic cost we bear, will be largely driven by international factors, rather than by our national target. This point is not well understood in the Australian debate where the focus to date has been entirely on the domestic trajectory as an indicator of economic cost".<sup>2</sup>

On 24 April 2021, Parkinson's predictions became an imminent reality when the EU Parliament promulgated the first round of legislation aimed at imposing a cost on unmitigated carbon in traded goods, a WTO-compatible EU carbon border adjustment mechanism (CBAM).<sup>3</sup>

This represents the most tangible step in applying carbon controls to the inputs of productive economic activity. In the context of progressively concerning predictions about the impact of runaway carbon emissions and the reduction targets pursued by signatories to the Paris Climate Agreement,

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<sup>1</sup> Martin Parkinson, "Climate Change Policy – Driving Transformational Change," *The Melbourne Review: A Journal of Business and Public Policy* 4, no. 2 (2008): 13-19.

<sup>2</sup> Martin Parkinson, "Charting the Course Toward a Low Carbon Economy," 27 November 2008, Canberra, ACT. [https://crawford.anu.edu.au/pdf/seminars/swan\\_parkinson\\_speech.pdf](https://crawford.anu.edu.au/pdf/seminars/swan_parkinson_speech.pdf)

<sup>3</sup> Jaime McKenzie, Alister Lloyd, Oliver Lloyd, Madeline White, "EU carbon tariffs on the horizon – what Australian trading businesses need to know," *Insight*, Allens, 28 April 2021. <https://www.allens.com.au/insights-news/insights/2021/04/eu-carbon-tariffs-on-the-horizon-what-australian-trading-businesses-need-to-know/>