

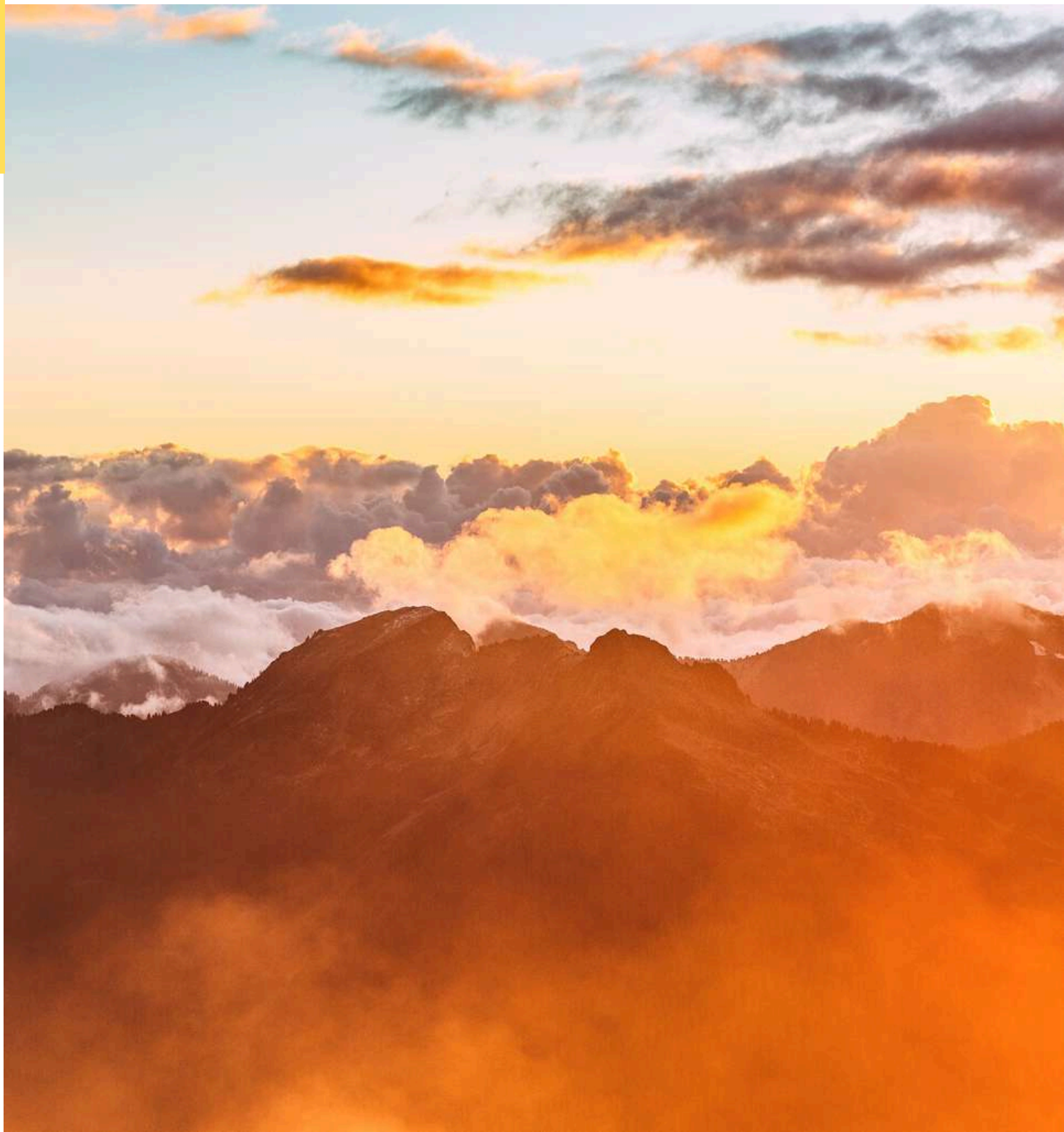
# A CARBON BORDER ADJUSTMENT MECHANISM: A LATIN AMERICAN PERSPECTIVE

RED SUR PB N° 6 | 2025  
LUIS MIGUEL GALINDO

Support from



MAY, 2025



# ABOUT THIS POLICY BRIEF

THIS POLICY BRIEF WAS PRODUCED BY THE SOUTH AMERICAN NETWORK ON APPLIED ECONOMICS / RED SUR, WITH THE AID OF A GRANT FROM THE INTERNATIONAL DEVELOPMENT RESEARCH CENTRE, OTTAWA, CANADA, AS PART OF THE PROJECT: “ELEVATING AND CONNECTING RESEARCH FROM LATIN AMERICA AND AFRICA TO INFORM THE G20 AND COP30: PUBLIC DEBT, CARE, AND CLIMATE CHANGE”, BETWEEN 2024 AND 2025

The main objective of this document is to discuss the risks that are involved in the Carbon Adjustment Mechanism (CBAM) for Latin America. The CBAM is a tax applied at the border to exports from developing countries to developed countries to compensate for the national carbon price.

This CBAM tries to reduce problems of carbon leakage and competitiveness and to contribute to the deep decarbonization process. However, the CBAM has some problems. First, there is an ethical problem as it is applied to developing countries that produce inputs and goods for developed countries. Second, it has negative but heterogeneous effects on exports, economic dynamism, employment, and fiscal revenues in developing countries.

**AUTHOR: LUIS MIGUEL GALINDO**



## **Introduction**

Constructing a global carbon net zero economy between 2050 and 2070 consistent with the Paris Climate Change Agreement requires multiple public policies. Among these policies is the Carbon Border Adjustment Mechanism (CBMA), which represents a carbon tax to compensate for the carbon content on exports that have not been subject to some carbon price. The use of this mechanism is already considered in the European Union for 2026. The consequences of the CBAM are still under intense debate, for example, regarding the potential consequences on the dynamic of international trade and the economic dynamism or employment mainly in developing countries. Therefore, the objective of this document is to present some of the risks that are involved in the Carbon Adjustment Mechanism (CBAM) for Latin America.

## **General Framework**

The CBAM represents a tax on exports to compensate for the carbon content that it has not considered for a carbon price, mainly from developing countries to developed countries. The CBAM aims to prevent carbon leakages from developed to developing countries, promote low-carbon technologies, reduce international competitiveness and employment problems mainly in developed countries, and induce a new consumption pattern. However, there are still significant uncertainties about the use of the CBAM, among them are:

- There is an ethical debate on the CBAM. This tax is applied to exports mainly from developing countries. Therefore, it is used for inputs and goods that are produced in developing countries to satisfy the demands of developed countries. Furthermore, some of this production is a consequence of the direct foreign investment of developing countries to satisfy their carbon budgets.
- The evolution of the carbon price. That is, the NGFS (2019) scenarios consider very high tCO<sub>2</sub>e prices, even of USD \$300 tCO<sub>2</sub>e and USD \$700 tCO<sub>2</sub>e in case there is no other policy for the decarbonization process. In this sense, on some exports the consequence of the CBAM can be very high.
- The CBAM reduces the demand for inputs and goods with high carbon content and supports new low-carbon technologies. This represents climate transition risks.

In general, **the evidence** suggests that:

- The evidence on the effects of the CBAM is still very limited as it is a tax that will begin to take effect in the European Union in 2026 (Chen et al., 2023).
- There is evidence of carbon leakage from developed to developing countries (Branger & Quirion, 2014; Carbone & Rivers, 2017).
- The CBAM contributes to reducing carbon leakage (Cameron et al., 2022) and also contributes to reducing exports with high carbon content (Chen & Guo, 2017).
- The CBAM might have significant but heterogeneous effects on the Gross Domestic Product (GDP), employment, and fiscal revenue in developing countries (Magancho et al., (2022).

## **Conclusions**

The CBAM has potentially negative consequences on the export's dynamism, the evolution of the GDP, employment, and fiscal revenues and, it also represents an ethical dilemma. Therefore, considering the risks involved in the CBAM, it is important that developing countries incorporate its use in their climate transition risk administration.

## References

- Branger, F., & Quirion, P. (2014). Would border carbon adjustments prevent carbon leakage and heavy industry competitiveness losses? Insights from a meta-analysis of recent economic studies. *Ecological Economics*, 99, 29–39.  
<https://doi.org/10.1016/j.ecolecon.2013.12.010>
- Cameron, A., Baudry, M., et al. (2022). *The case for a carbon border adjustment: Where do economists stand?* Technical report, University of Paris Nanterre, EconomiX.
- Carbone, J. C., & Rivers, N. (2017). The impacts of unilateral climate policy on competitiveness: Evidence from computable general equilibrium models. *Review of Environmental Economics and Policy*, 11(1), 24–42.  
<https://doi.org/10.1093/reep/rew025>
- Chen, H., Jebeli, H., Johnston, C., Paltsev, S., & Tremblay, M.-C. (2023). *An investigation into the effects of border carbon adjustments on the Canadian economy* (Bank of Canada Staff Working Paper No. 2023-27).
- Chen, W., & Guo, Q. (2017). Assessing the effect of carbon tariffs on international trade and emission reduction of China's industrial products under the background of global climate governance. *Sustainability*, 9(6), 1028.  
<https://doi.org/10.3390/su9061028>
- Magacho, G., Espagne, E., & Godin, A. (2022). *Impacts of CBAM on EU trade partners: Consequences for developing countries* (AFD Working Paper Series).
- Network for Greening the Financial System (NGFS). (2019). *Guide to climate scenario analysis for central banks and supervisors* (June Report).