



**Wilton
Park**

Report: International solutions to carbon leakage

Wednesday 04 – Friday 06 February 2026

In partnership with

UK Foreign, Commonwealth
& Development Office
(FCDO) and E3G



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Shared commitment to cooperation

Over three days of discussion at Wiston House, there was a clear consensus among participants on the shared value of international cooperation on carbon leakage. The central question of this dialogue was therefore not whether to cooperate, but how, where and by whom progress should be driven forward.

Reflecting this common ground, participants concluded the event with a joint commitment to strengthen cooperation and efforts to address carbon leakage:

“International cooperation on carbon leakage will be a core component of building an integrated system to reduce global emissions. We will champion systems that are driven by transparency, compassion and trust, are inclusive of a wide range of countries and other stakeholders, reinforce evidence-based good practice, strengthen multilateral cooperation, and support climate ambition and economic prosperity. We collectively commit to promote, scale, and accelerate these urgent efforts.”

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Executive summary

Accelerating the decarbonisation of emissions-intensive, trade-exposed (EITE) sectors is one of the most important, yet complex dimensions of the green transition. As governments seek to advance in their industrial decarbonisation efforts, concerns around carbon leakage have become central to many policy debates. In response, a growing number of jurisdictions are introducing or considering carbon border measures and other anti-leakage policies. While intended to safeguard domestic climate ambition, in particular carbon border measures have led to contentious discussions about fairness, administrative burden, and uneven impacts across countries and sectors.

This Wilton Park dialogue brought together policymakers, experts and civil society representatives from around the world to explore international solutions to carbon leakage and identify pathways to strengthen cooperation on shared objectives. These include accelerating industrial decarbonisation globally, particularly in EITE sectors such as steel, aluminium and chemicals where scaling up low-carbon technologies still remains commercially challenging.

Participants identified two broad avenues for advancing cooperation.

First, strengthening support for industrial decarbonisation, particularly in developing economies, was seen as essential to mitigate carbon leakage risks. This includes supporting the development of carbon pricing systems, for instance by expanding measurement, reporting and verification (MRV) capacity building efforts. Beyond carbon pricing, scaling up assistance for developing long-term decarbonisation pathways, enhancing mutual recognition of product standards, leveraging public and private procurement to steer demand towards low-carbon solutions, and establishing best practice frameworks for industrial subsidies and trade-related climate measures were discussed as tools to accelerate industrial decarbonisation globally.

Second, enhancing interoperability of carbon border measures and underlying MRV systems was identified as another central and feasible area for progress. While participants shared the view that fully harmonising carbon border regimes is unrealistic, given that they are tied to unique underlying carbon pricing schemes, ensuring that carbon accounting standards are similar enough so that producers are not forced to establish different accounting systems for compliance was seen as a pragmatic and achievable avenue for stronger cooperation. In this context, advancing

regional coordination on MRV systems was discussed as a possible lever towards interoperability. Participants noted a unique window of opportunity: while a limited number of carbon border regimes are currently in place, interest is growing. Early coordination can help shape alignment before divergent systems become operational and drive up compliance costs further.

A three-step pathway towards making progress on interoperability was discussed:

- 1 Taking stock of existing initiatives and identifying country champions to drive the issue forward at the international level.
- 2 Facilitating inter-institutional cooperation.
- 3 Advancing concrete solutions through appropriate channels, for example by agreeing on guiding principles on MRV systems and carbon accounting methodologies, or by establishing common design principles for carbon border measures.

Introduction

Achieving the objectives of the Paris Agreement requires a rapid and sustained reduction of global greenhouse gas (GHG) emissions over the coming decades. While countries differ in their responsibilities and capabilities, there is broad recognition that more ambitious climate mitigation measures are needed to meet global climate goals.

In the absence of international coordination, however, differences in the stringency and design of climate policies can generate unintended spillovers and constrain ambition. Higher compliance costs associated with mitigation measures, such as carbon pricing policies, may raise production costs for domestic firms, allowing imports from jurisdictions with less stringent regulations to compete at lower cost. This dynamic can weaken public and industry support for climate action. Policy asymmetries are also related to the risk of carbon leakage, i.e., the relocation of emissions from one jurisdiction to another due to carbon pricing or environmental regulation, particularly in emissions-intensive, trade exposed (EITE) industries.

In this context, many countries have introduced measures to address carbon leakage alongside domestic climate policies. These include free allocation of allowances under emissions trading systems (ETs), industrial subsidies, public procurement rules, and, more recently, border carbon adjustments (BCAs). While such measures are intended to preserve policy space for countries seeking to move ahead with ambition, they have also raised concerns regarding fairness, administrative complexity, and uneven trade and development impacts. As BCAs move from design to implementation, most notably the EU's Carbon Border Adjustment Mechanism (CBAM) which entered into force in early 2026, debates in international climate and trade fora, including the WTO and COP30 in Belém, have intensified. At the same time, the Belém Declaration on Global Green Industrialization¹ and launch of the Open Coalition on Compliance Carbon Markets² at COP30 are recent examples of initiatives that aim to advance international cooperation on industrial decarbonisation and policy convergence.

¹ https://www.unido.org/sites/default/files/files/2025-11/COP30_Belem%20Declaration%20on%20Global%20Green%20Industrialization_Final%20%281%29.pdf?token=1231317939

² https://www.gov.br/mre/pt-br/canais_atendimento/imprensa/notas-a-imprensa/declaracao-sobre-a-coalizao-aberta-de-mercados-regulados-de-carbono/OpenCoalitiononComplianceCarbonMarkets.pdf

To facilitate constructive dialogue around shared objectives, concerns, and opportunities for coordination, this Wilton Park event convened policymakers, experts and civil society representatives from around the world for three days of focused discussion on how to work together to address carbon leakage risk and accelerate industrial decarbonisation efforts globally.

Different starting points, shared challenges

To begin with, participants discussed the current state of policies addressing carbon leakage risks, and in particular, carbon border measures.

From the perspective of countries implementing anti-leakage policies, BCAs are viewed as necessary tools to advance domestic climate ambition, including the gradual phase-out of free emission allowances under emissions trading systems. However, discussions emphasised that carbon leakage risks cannot be sufficiently addressed by a single policy tool and stressed the importance of long-term solutions that build on internationally coordinated efforts.

From the side of many developing and least developed countries (LDCs), carbon border measures are perceived as a form of “green protectionism” that undermine their industrialisation ambitions and disrespect the principle of Common but Differentiated Responsibilities and Respective Capabilities enshrined in the UNFCCC charter.³ Participants underlined the highly uneven anticipated effects of BCAs across countries and sectors, as well as administrative capabilities of firms and governments as key constraining factors for effective compliance. Some discussants also raised the need for recognising climate mitigation measures beyond carbon pricing policies in the design of carbon border measures to accommodate the limited institutional, technical and enforcement capacities of developing economies.

From an industry perspective, high compliance costs and policy uncertainty were raised as the primary concerns with regards to carbon border measures, particularly in the absence of coordination in its key design features which could result in a patchwork of inconsistent approaches to measuring, reporting and verifying emissions. International organisations can play a key role in avoiding this fragmentation

³ <https://unfccc.int/resource/docs/convkp/conveng.pdf>

and serve as fora for exchange of best practices and international cooperation, thereby identifying synergies and common needs across jurisdictions. They can also offer technical assistance and impact assessments.

Beyond these different starting points, a range of shared challenges and objectives across all stakeholder groups was identified and discussed.

Accelerating industrial decarbonisation globally

Generally, participants emphasised that industrial decarbonisation – particularly in EITE sectors – remains costly and complex. While renewable energy deployment is increasingly cost-competitive, significant green premiums, i.e., higher costs of low-carbon solutions compared to conventional production, persist in hard-to-abate sectors such as steel, aluminium or chemicals. It was widely agreed that reducing this gap requires more ambitious policies that support innovation, demand creation and international cooperation.

Interoperability of carbon border measures

Significant differences in ETS systems and underlying MRV methodologies are destined to lead to different designs of carbon border measures. As a result, divergences in system boundaries, allocation rules, scope, calculation methods, and verification requirements, among other aspects, risk creating multiple, overlapping compliance demands for producers operating across markets. A commonly identified challenge is to ensure interoperability between BCA regimes, i.e. similar enough carbon accounting standards so that producers are not forced to establish different accounting systems to meet the different demands of each. The overarching goal is to minimise trade frictions and lower compliance barriers.

Effective coordination across institutions and initiatives

Participants identified coordination across institutions, initiatives and policy communities as a shared challenge. Discussions on addressing carbon leakage are currently spread across multiple fora – climate negotiations, trade fora, sectoral initiatives, and technical standard-setting bodies – with often unexplored synergies. While this is to a certain extent unavoidable, participants stressed that this fragmentation can create duplication, inconsistencies, and “technical inertia”. Discussants thus emphasised the need to better connect existing processes, clarify roles, and translate dialogue into more coherent and concrete action to address the “collaboration gap” around the design of anti-leakage policies. Engaging with industry

associations, particularly in the areas of carbon accounting methodologies and product standards, was also stressed by some participants.

Key opportunities for progress

A range of different options for facilitating international cooperation to address carbon leakage was discussed. These included ways to support industrial decarbonisation in developing economies, alignment of MRV systems and carbon accounting methodologies, product standards and industrial subsidies.

Supporting industrial decarbonisation in developing economies

Capacity building: MRV systems

Participants emphasised the need to strengthen and expand MRV capacity building efforts, particularly in developing economies. While current technical assistance programmes, such as the World Bank's Partnership for Market Implementation or activities of the International Carbon Action Partnership mainly focus on supporting the design and implementation of carbon pricing and carbon market policies, participants noted that carbon border measures introduce additional challenges, particularly in relation to product-level embedded emissions accounting. A particular focus of these programmes should lie in improving digital infrastructures and in aligning domestic reporting frameworks with international standards.

Examples discussed include EU support to Malaysia in aligning transparency reporting and carbon accounting systems, as well as long-standing UK technical assistance to China's carbon market, which has helped build high-integrity reporting systems and led to learning spillovers across ASEAN members.

Support for long-term decarbonisation pathways

Beyond accelerating the build-up of technical MRV capacity, participants emphasised the importance of technical assistance for long-term industrial decarbonisation strategies. Initiatives such as Japan's Asia Zero Emission Center⁴ and UK PACT⁵ were mentioned as examples of support for country-specific decarbonisation pathways and

⁴ https://www.meti.go.jp/english/policy/energy_environment/global_warming/azec/azec_en.html

⁵ <https://www.ukpact.co.uk/>

strengthening of local analytical capacity. Participants noted that such efforts should be scaled up.

More broadly, participants discussed the need to complement anti-leakage measures with additional policies such as technological cooperation as well as climate finance and investment support to help enable industrial decarbonisation and avoid carbon lock-ins in developing economies. Balancing “sticks” with credible “carrots” was therefore seen as an important lever to accelerate industrial decarbonisation and rebuild trust. The Belém Declaration on Global Green Industrialization⁶ launched at COP30 could serve as one of the potential avenues for such forms of cooperation.

Stronger regional coordination

Participants also highlighted the potential of stronger regional cooperation as one vehicle towards greater interoperability. In particular, regional coordination on MRV systems and the development of price corridors or linkages across existing carbon markets were discussed as ways to reduce leakage risks. Examples included, but were not limited to, deeper coordination within ASEAN members and the exploration of broader Northeast-Southeast Asian carbon corridors to promote greater alignment in carbon pricing approaches and high-integrity MRV standards.

Alignment of MRV systems and carbon accounting methodologies

Towards interoperable systems

Participants emphasised that progress on carbon leakage prevention and interoperability should be strengthened by greater alignment of MRV systems and carbon accounting methodologies. Current MRV systems differ in coverage (e.g. sectors, gases, scope, points of regulation), emissions estimation methods, as well as reporting and verification requirements.⁷ Discussions highlighted the importance of moving towards interoperable MRV systems, not through full harmonisation, but through convergence around shared principles and mutual recognition. Existing

⁶ https://www.unido.org/sites/default/files/files/2025-11/COP30_Belem%20Declaration%20on%20Global%20Green%20Industrialization_Final%20%281%29.pdf?token=1231317939

⁷ A more detailed assessment of components of MRV systems that impact interoperability can be found here: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/06/towards-interoperable-carbon-intensity-metrics_84dce81d/b185bcfa-en.pdf

frameworks such as ISO standards and the GHG Protocol were widely recognised as a common reference point that can be leveraged to ensure greater alignment in carbon accounting methodologies. Beyond working towards a common “measurement stick”, participants emphasised the importance of sufficient disaggregation of emissions data to facilitate comparisons of overlapping segments across systems with different reporting boundaries. This should enable greater transformability, meaning that data generated in one system can be “translated” for use in another. Discussions emphasised the important analytical work of the Inclusive Forum on Carbon Mitigation Approaches (IFCMA) in this regard which has also formulated principles that aim to guide development of carbon intensity metrics – which quantify emissions per unit of production – and the design of policies based on them.⁸ In this context, participants also pointed to the Open Coalition on Compliance Carbon Markets⁹ formed at COP30 which sets out to work towards greater MRV systems alignment and long-term policy convergence. Participants emphasised the importance of building on existing initiatives and fora, instead of starting from scratch, to advance progress on interoperability.

Product standards

Strengthen governance and mutual recognition of product standards

Mutually recognised product standards were highlighted as important tools to enhance tradability of low-carbon goods and incentivise demand creation. By defining common criteria, for instance for embedded emissions, standards can enhance transparency and enable low-carbon producers to access new markets. In this context, the role of customs classifications and bilateral trade agreements was discussed. While the World Customs Organisation (WCO) Harmonized System (HS) traditionally does not differentiate by emissions embedded in the products, participants noted that recent revisions – such as new sub-headings for plastic

⁸ IFCMA principles that aim to guide development of carbon intensity metrics include: (i) ensuring proportionality, (ii) promoting innovation and competition and (iii) fostering interoperability; more detailed elaborations can be found here: https://www.oecd.org/en/publications/2024/11/towards-more-accurate-timely-and-granular-product-level-carbon-intensity-metrics-challenges-and-potential-solutions_c7b5c87e.html

⁹ https://www.gov.br/mre/pt-br/canais_atendimento/imprensa/notas-a-imprensa/declaracao-sobre-a-coalizao-aberta-de-mercados-regulados-de-carbono/OpenCoalitiononComplianceCarbonMarkets.pdf

products under HS 2028¹⁰ – show that the system can evolve to help achieve environmental objectives. Upcoming HS reviews were seen as potential opportunities, building on existing standard-setting initiatives, for instance for green steel, to incorporate sustainability considerations in the HS framework. Discussions also highlighted the role of Free Trade Agreements as opportunities to establish mutual recognition of environmental standards, thereby facilitating trade in low-carbon products.

Public and private procurement to create demand signals

Public and private procurement play a key role in creating demand signals for low-carbon industrial production. Discussants identified green public procurement mandates, buyers' alliances and guaranteed offtake agreements as possible levers to reduce investment uncertainty and accelerate industrial decarbonisation. By tying together public procurement requirements with private-sector purchasing commitments, governments and firms can help establish high-volume lead markets that make low-carbon production gradually commercially viable. In this context, coalition-based approaches were seen as particularly promising, for instance, coordinating a green steel buyers' group to provide the bankable offtake certainty required for final investment decisions. Initiatives such as UNIDO's Green Public Procurement Pledge¹¹ were brought forward as examples of effective commitments and international collaboration on procurement standards that aim to advance industrial decarbonisation.

Industrial subsidies

Framework for best practice on clean-industry subsidies

Participants discussed the significant rise in clean-industry subsidies in recent years. While such subsidies are important to accelerate industrial decarbonisation, they have also raised concerns about market distortions and unequal fiscal capacity across

¹⁰ <https://www.wcoomd.org/en/media/newsroom/2026/january/hs-2028-introduces-new-sub-headings-for-plastic-products.aspx>

¹¹ <https://decarbonization.unido.org/wp-content/uploads/2026/02/iddi-gpp-pledge-announcement-2025.pdf>

countries. Participants discussed the possibility of a framework of best practice to enhance transparency, coordination, and effectiveness. Existing plurilateral fora – such as the Climate Club, OECD Steel Committee, and the Integrated Forum on Climate and Trade – were referenced as potential platforms though discussions emphasised the importance of including the most important producer countries to maximise its impact.

Differentiated trade policy tools to incentivise low-emission products

Discussions also identified the use of differentiated trade policy tools as potential levers to incentivise the tradability of low-emission products. Reduced tariff rates for low-carbon products compared to conventional ones, however, require internationally agreed classifications on product standards and enforcement. The ongoing review of the HS under the World Customs Organisation was again raised as a potential opportunity to move towards this direction.

The road ahead: Working towards interoperability

Across discussions, working towards interoperability of BCAs and underlying MRV systems was predominantly identified as one of the most important and feasible actions to be taken forward. This can be attributed to two main reasons. First, the benefits and common interests of international coordination in this space are broadly shared. Second, there is a unique window of opportunity to address this issue now. Once multiple regimes are fully in force, interoperability will be harder. Moreover, the announcement and gradual implementation of BCAs have increased attention around carbon pricing policies and related measures, thereby increasing “carbon literacy”¹² among policymakers and stakeholders around the world.

Participants also emphasised that many elements needed for greater coordination already exist, including technical knowledge gained from the implementation of ETSs in certain jurisdictions and various plurilateral initiatives that already work towards solutions in this field. At the same time, moving towards interoperability presents

¹² With the term “carbon literacy”, a participant referred to the growing awareness among stakeholders of the economic implications of GHG emissions and policy tools available to address them. Discussants noted that emerging border carbon measures have served as a catalyst for carbon pricing discussions, incentivising the strengthening or adoption in many jurisdictions.

technical, political and co-ordination challenges. Differences in system design, institutional mandates, and domestic interests could complicate alignment, while concerns around fairness and competitiveness influence the pace of cooperation and design of carbon border measures.

Going forward, discussions converged around a three-step approach towards mobilising political support for interoperability which can be summarised as:

(1) taking stock of existing initiatives and identifying country champions to drive the issue forward at the international level, (2) facilitating inter-institutional cooperation, and (3) advancing concrete solutions through appropriate channels, for example by agreeing on guiding principles on MRV systems and carbon accounting methodologies, or by establishing common design principles for carbon border measures.

While much of the discussion focused on interoperability of carbon border measures and MRV systems, this pathway could also be applied to other identified opportunities, including strengthening MRV capacity building and demand-creation mechanisms to accelerate industrial decarbonisation, particularly in developing economies. Participants also emphasised potential feedback loops between different stages along the way, and that solely pursuing a top-to-bottom approach may not be desirable.

Taking stock: Mapping existing initiatives and identifying country champions

What is out there? Who could lead?

Participants underscored the importance of taking stock of existing initiatives and memberships across climate, trade, and carbon pricing fora as related efforts are already underway in platforms such as the Climate Club, WTO, IFCMA, and others. Discussions further emphasised the need to identify country champions willing and capable to drive this issue forward and generate the necessary political momentum.

Connecting the dots: facilitating inter-institutional cooperation

Who needs to be on board? Who could do what?

As a second step, discussions focused on strengthening coordination across current initiatives. Rather than creating new platforms, participants were in favour of connecting and building on existing ones – clarifying mandates and preventing duplication of workstreams and “technical inertia”.

Advancing concrete solutions: through appropriate channels

How can these channels be leveraged to advance practical solutions? How can carbon border measures be designed in an interoperable and inclusive manner?

Once suitable coalitions and venues for cooperation have been identified, more concrete policy solutions can be advanced through these channels.

In the context of interoperability, participants discussed developing voluntary guiding principles among key actors to provide a common reference point for cooperation. These were said to be procedural and non-prescriptive, and could serve as a starting point for more concrete implementation guidance on MRV systems and carbon accounting methodologies formulated with a broader set of stakeholders. An example that was discussed in this context is a proposal in the WTO Committee on Trade and Environment¹³ on guidance on methodologies for measuring embedded emissions. The agreement on voluntary principles for action to address carbon leakage and other spillovers among members of the Climate Club¹⁴ and the Open Coalition on Compliance Carbon Markets¹⁵ were mentioned as recent initiatives that could be leveraged to advance cooperation on interoperability.

Drawing on existing analytical work, for instance the stakeholder dialogues convened by the International Institute for Sustainable Development¹⁶, participants also suggested that an agreement on best practices for BCA design could support countries that want to implement carbon border measures in “getting it right” while reducing fragmentation. Greater clarity was considered desirable in several areas, including the treatment and calculation of default values, the inclusion of indirect emissions, potential scope expansion further down the value chain, de minimis thresholds and the interaction between border measures and export rebates.

¹³<https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/CTE/W269R1.pdf&Open=True>

¹⁴https://climate-club.org/wp-content/uploads/2025/09/principles_explanatory_note.pdf

¹⁵https://www.gov.br/mre/pt-br/canais_atendimento/imprensa/notas-a-imprensa/declaracao-sobre-a-coalizao-aberta-de-mercados-regulados-de-carbono/OpenCoalitiononComplianceCarbonMarkets.pdf

¹⁶<https://www.iisd.org/system/files/2025-07/border-carbon-adjustment-guidance.pdf>

Common ground for progress

On the last day of the event, participants reflected on the discussions and expressed a shared commitment to advance international cooperation on carbon leakage and industrial decarbonisation:

“International cooperation on carbon leakage will be a core component of building an integrated system to reduce global emissions. We will champion systems that are driven by transparency, compassion and trust, are inclusive of a wide range of countries and other stakeholders, reinforce evidence-based good practice, strengthen multilateral cooperation, and support climate ambition and economic prosperity. We collectively commit to promote, scale, and accelerate these urgent efforts.”

Participants re-emphasised the unique window of opportunity to address shared challenges such as interoperability of carbon border measures and underlying MRV systems. The final discussions also reiterated the overarching goal of increasing the speed and scale of industrial decarbonisation by aligning efforts across bilateral, plurilateral, and multilateral channels.

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Wilton Park | March 2026

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