



Explanatory Note: Climate Club voluntary principles for action to address carbon leakage and other spillovers

1. This explanatory note accompanies the publication of voluntary principles for action to address carbon leakage and other spillovers that Climate Club members agreed on 19 September 2025. It sets out the context, rationale, and next steps for these principles.

Context

2. The Climate Club was launched in 2023 as an open, co-operative, and inclusive forum to support the effective implementation of the Paris Agreement and decisions thereunder. Since inception, the Climate Club has brought together ambitious partners to advance dialogue and action on ambitious climate policies and spillover effects – including on carbon leakage, on standards and definitions for near-zero and low emissions products, and on bundling and matching financing and technical assistance programmes.
3. Carbon leakage is the increase of foreign greenhouse gas emissions caused by the introduction or intensification of domestic climate policies, translating into different levels of domestic climate policy induced costs.¹
4. Carbon leakage may reduce the effectiveness of countries' or regions' climate change mitigation efforts. Both mitigation efforts and measures to address carbon leakage and other spillovers might affect trade flows and production patterns or create other challenges for countries being affected by or implementing such measures. International cooperation can enhance the effectiveness of, reduce the risk of negative spillovers from, and increase acceptability of measures to mitigate climate change and respond to carbon leakage risk and other spillovers.²
5. Following a series of three Strategic Dialogues held during 2024 on the causes and relevance of spillovers from mitigation policies³, Climate Club members agreed to develop a set of voluntary guiding principles for action to address carbon leakage and other spillovers. At the invitation of the Climate Club Co-Chairs, the Republic of Türkiye and the United Kingdom coordinated the development of these principles. This work sits under Pillar 1, Module 2 of the Climate Club Work Programme 2025/2026⁴ on managing carbon leakage and other spillover effects of climate change mitigation policies, building on existing and future work of the Climate Club.

1 [Climate Club Members' Statement, 2024, para. 9.](#)

2 [Climate Club Members' Statement, 2024, para. 10.](#)

3 [Summary Report of the Strategic Dialogues on causes and relevance of spillovers from mitigation policies, OECD, 2024.](#)

4 [Climate Club Work Programme 2025-26](#) (adopted by the Body of Members of the Climate Club on 23 December 2024).



Agreed principles

6. The voluntary and non-binding principles are intended to guide policy design on action to address carbon leakage and other spillovers, promote efforts towards greater international cooperation on action to address carbon leakage and other spillovers and support action on ambitious climate policies and spillover effects. They reflect the range of views of Climate Club members and have benefitted from existing principles in relevant initiatives (such as the OECD Inclusive Forum on Carbon Mitigation Approaches (IFCMA) principles to guide development of carbon intensity metrics and the design of policies based on them, listed in Annex A). The principles are not intended to create rights or obligations under international or domestic law.

Principles

Climate Club members intend to accelerate work towards a common understanding on ways to address carbon leakage and other spillover effects of mitigation policies, and agree that members should be guided by the following voluntary principles for action on carbon leakage and other spillovers:

- A. Promote environmental outcomes and facilitate climate ambition in line with the temperature goals of the Paris Agreement.
- B. Be consistent with relevant international law, including relevant international agreements.
- C. Improve conditions for investments in industrial decarbonisation and innovation in decarbonising production of materials and goods, supporting growth and enhanced circularity of the industrial sector through various pathways.
- D. Avoid disproportionate burdens on business, including considering the needs of small and medium-sized enterprises (SMEs) where appropriate.
- E. Recognise the right of jurisdictions to regulate and establish their own climate mitigation policies and, where appropriate, endeavour to consider the diverse range of climate mitigation policy approaches deployed by different jurisdictions.
- F. Promote transparency, interoperability, and accessibility of emissions monitoring, reporting, and verification (MRV) systems associated with policy instruments in order to promote international cooperation and to facilitate trade.
- G. Seek transparent and open collaboration, aiming to improve common understanding on practices and policies, and to identify relevant capacity gaps, needs, and potential solutions and decarbonisation pathways based on country experiences.

Rationale for the principles

- 7. Principle A:** *Promote environmental outcomes and facilitate climate ambition in line with the temperature goals of the Paris Agreement.*

Principle A emphasises that action on carbon leakage and other spillovers should be focused on environmental outcomes and accelerating climate action. It supports the Climate Club’s overarching aim to “support accelerating effective climate action and to support the implementation of the goals of the Paris Agreement through coordinated approaches to industrial decarbonisation, enhanced circularity of the industrial sector, and green growth”.⁵

- 8. Principle B:** *Be consistent with relevant international law, including relevant international agreements.*

Principle B signals the importance that measures that address carbon leakage and other spillovers are consistent with relevant international law.

- 9. Principle C:** *Improve conditions for investments in industrial decarbonisation and innovation in decarbonising production of materials and goods, supporting growth and enhanced circularity of the industrial sector through various pathways.*

Principle C also links to the Climate Club’s overarching aim, specifically on coordinated approaches to industrial decarbonisation and on enhanced circularity and growth. Enabling low carbon production is a key element of the Climate Club’s work (including under Pillar 2 on transforming industries) and accelerating the transition to net zero greenhouse gas emissions by or around mid-century.⁶ Members have raised that action on carbon leakage needs to support low carbon production and support increased investment in low carbon production, considering various pathways. It links to the IFCMA principles in Annex A.

- 10. Principle D:** *Avoid disproportionate burdens on business, including considering the needs of small and medium-sized enterprises (SMEs) where appropriate.*

Principle D reflects views about the potential impacts on businesses of carbon leakage, and action to address it. It recognises the importance of avoiding disproportionate burdens for business including for SMEs which may face greater financial and administrative challenges. It also reflects the IFCMA principles.

⁵ [Climate Club Member Statement, 2024, para. 3.](#)

⁶ The Climate Club “aims to support accelerating climate action and increasing ambition in order to achieve global net zero greenhouse gas emissions by or around mid-century”. [Climate Club Terms of Reference, 2022, para. 2.](#)



- 11. Principle E:** *Recognise the right of jurisdictions to regulate and establish their own climate mitigation policies and, where appropriate, endeavour to consider the diverse range of climate mitigation policy approaches deployed by different jurisdictions.*

Principle E acknowledges that different jurisdictions are adopting different climate mitigation policies that are relevant in understanding the causes of and appropriate action on carbon leakage. It recognises that jurisdictions may pursue various policy instruments based on their circumstances, capacities, and priorities. This reflects that the Climate Club is “inclusive in nature”.⁷ The Climate Club may serve to promote mutual understanding of national climate measures.

- 12. Principle F:** *Promote transparency, interoperability, and accessibility of emissions monitoring, reporting, and verification (MRV) systems associated with policy instruments, in order to promote international cooperation and to facilitate trade.*

Principle F reflects the important role of transparency, interoperability, and accessibility of MRV to enhance action on carbon leakage and other spillovers, and links to the IFCMA principles. This can help to facilitate broader participation, foster trust across jurisdictions, and promote transparent climate action.

- 13. Principle G:** *Seek transparent and open collaboration, aiming to improve common understanding on practices and policies, and to identify relevant capacity gaps, needs, and potential solutions and decarbonisation pathways based on country experiences.*

Principle G sets an ambition around transparency and collaboration reflecting that the Climate Club is “inclusive in nature”⁸ and serves “as an enabling framework for increased cooperation, improved coordination and potential collective action”.⁹ It reflects the importance of considering country experiences, including the experiences of least developed countries, to reach industrial decarbonisation goals and benefit from clean industrial development opportunities. It supports the Climate Club’s work under Pillar 3 on boosting international climate cooperation and partnerships, including through the Global Matchmaking Platform.

Next steps

14. We will seek to engage with existing international initiatives where relevant, to support the ambition and momentum needed to achieve tangible outcomes on addressing carbon leakage and other spillovers.

⁷ [Climate Club Terms of Reference, 2022, para. 20.](#)

⁸ [Climate Club Terms of Reference, 2022, para. 20.](#)

⁹ [Climate Club Terms of Reference, 2022, para. 5.](#)



Annex A: IFCMA's principles to guide development of carbon intensity metrics and the design of policies based on them¹⁰

- Ensuring proportionality: striking a balance between accuracy and resource requirements, which may differ across sectors, products and use cases.
- Promoting innovation and competition: enhancing innovation incentives to decarbonise production processes and preserving open markets and a level playing field at national and international levels.
- Fostering interoperability: developing processes, methods and infrastructure in different regions, countries, sectors or products that share common foundations and can “speak” with each other to avoid multiple reporting requirements and increasing firms reporting costs.

¹⁰ [Towards more accurate, timely, and granular product-level carbon intensity metrics: challenges and potential solutions; An IFCMA report, OECD, 2024, p.76.](#)