Carbon Border Adjustment Mechanism

2nd Coordination Meeting of the Energy Community Coal-based Electricity Generation Companies

4 February 2021
European Green Deal

• Aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy.
• Aims to make the EU the first climate-neutral continent in 2050.
• Aims to reduce carbon emissions by 55% in 2030.
European Green Deal

- Biodiversity Strategy for 2030
- Transition to a Circular Economy
- Preserving Europe’s natural capital
- Sustainable Transport
- Achieving Climate Neutrality
- Clean, Reliable and Affordable energy
- Financing the transition
- Leave no one behind (Just Transition)
- A new Circular Economy Action Plan
- A zero pollution Europe
- Farm to Fork
- The transformation of agriculture and rural areas
- Towards a modernised and simplified CAP

- Strategy on the sustainable use of chemicals
- Clean Air and Water Action Plans
- Farm to Fork Strategy
- Vision for Inclusive Rural Areas
- Africa Europe agenda
- CAP reform proposal

- Revising 2030 Climate Targets
- Extending ETS
- Climate Pact
- Climate Law
- Carbon Border Adjustment Mechanism

- Review Energy Legislation
- European Framework for gas
- Review Energy Taxation Directive

- European Investment Bank as European Climate Bank
- Sustainable Europe Investment Plan
- Green Financing Strategy
- Just Transition Instrument, including the Just Transition Fund
- Mainstreaming the Just Transition in the MFF
- Mainstreaming climate transition and sustainability in the MFF

- TBD with the commissioner-designate

- Review Energy Legislation
- European Framework for gas
- Review Energy Taxation Directive
EU increased its climate ambitions

Need to incentivise energy intensive industries to invest in low carbon technologies

Risk of carbon leakage is increasing

Consequences of effectiveness of EU’s policies

Green Recovery
“Should differences in levels of ambition worldwide persist, as the EU increases its climate ambition, the Commission will propose a carbon border adjustment mechanism, for selected sectors, to reduce the risk of carbon leakage.”
What is a CBAM?
Key elements of Design

Ensuring that the price of imports reflects more accurately their **carbon content**

Alternative to the measures that address the risk of carbon leakage in the EU’s **Emissions Trading System (ETS)**.

**Compliance with WTO**, in particular the MFN and National Treatment Articles of GATT

Looking at **carbon intensive sectors**
Options for a CBAM

1. New excise duty/carbon tax on carbon intensive products which would include a CBAM;

2. Border tax/import duty;

3. Border tax/import duty with export refund;

4. Carbon added tax;

5. Surrender of EU ETS allowances upon importation;

6. Surrender of “notional” EU allowances upon importation.
Timeline

11 December 2020
European Green Deal adopted

22 July – 28 October 2020
Open Public Consultation
• 609 contributions
• Collect opinions on opportunities and challenges of CBAM

Spring 2021
Green Taxation Event
• Consult with stakeholders

2023
Implementation

4 March – 1 April 2020
Inception Impact Assessment
• 224 Contributions
• >140 in support

Ongoing
Impact Assessment
• Studies
• Modelling exercises
• Inter-service consultations

June 2021
Commission Adoption
## Elements contributing to the Impact Assessment

<table>
<thead>
<tr>
<th>Studies on Carbon Leakage</th>
<th>Studies on Carbon Border Adjustment</th>
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<tr>
<td>• 2030 Revised climate ambition impact assessment</td>
<td>• Design and effects</td>
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<tr>
<td>• Carbon Leakage in ETS Phase 3 and 4</td>
<td>• Modelling – JRC &amp; ECFIN</td>
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<td>• Alternatives to address carbon leakage – DG CLIMA</td>
<td>• WTO – DG TRADE</td>
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<td>• OPC results analysis</td>
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<td>• Effect of a CBAM on energy markets – DG ENER</td>
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OPC – Contributions

**Stakeholders**

- Academic/research institution: 2.96% (18)
- Business association: 0.99% (6)
- Company/business organisation: 11.64% (10)
- Consumer organisation: 27.91% (170)
- Environmental organisation: 8.21% (50)
- EU citizen: 26.60% (162)
- Non-EU citizen: 0.49% (3)
- Non-governmental organisation (NGO): 1.31% (8)
- Other: 28.08% (171)
- Public authority: 0.16% (1)
- Trade union: 0.50% (3)

**Geographical coverage**

- Bordering countries: 5.42% (33)
- EEA+CH+UK: 6.57% (40)
- EU: 4.76% (29)
- Other non-EU: 83.25% (507)
**What the stakeholders say - justification**

- Most of the respondents to the OPC believe that the risk of carbon leakage is expected to increase as a result of the EU’s enhanced climate ambition.
- On average, consulted stakeholders agree that a CBAM:
  - Can be justified by differences of ambition between EU and third countries to fight against climate change.
  - Can contribute to both EU and global climate efforts.
- Similarly most respondents do not believe that CBAM would impose unnecessary burdens on EU industry.
- Stakeholders in bordering countries represent the only cluster that neither agrees, nor disagrees on the role an EU CBAM can play to level differences in ambition between the EU and third countries and on the contribution of a CBAM to fight climate change.

### In view of EU’s enhanced climate ambition the risk of carbon leakage is likely to increase

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<th>EU &amp; non-EU citizens</th>
<th>Companies &amp; business associations</th>
<th>Civil society (all other stakeholders)</th>
<th>Public authorities</th>
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<tbody>
<tr>
<td>Percentage</td>
<td>66%</td>
<td>83%</td>
<td>72%</td>
<td>69%</td>
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### Level of agreement with the justification of CBAM

- a. Putting in place an EU CBAM is justified if differences of ambition between the EU and third countries in fighting climate change persist: 2.35 (542)
- b. By reducing risks of carbon leakage, a CBAM can help achieving the EU objective of climate neutrality by 2050 and contribute to global climate efforts: 2.23 (540)
- c. A higher price on some imported products due to the introduction of a CBAM in the EU would be acceptable if it contributed to global climate efforts: 2.28 (541)
- d. A CBAM would impose unnecessary burden on EU industry: 1.07 (537)

Legend: 0 = Strongly disagree  1 = Somewhat disagree  2 = Somewhat agree  3 = Strongly agree
What the stakeholders say - objectives

- Stakeholders believe that carbon leakage is already a reality and, to some extent, CBAM can address this, foster consumption of the less-carbon intensive product in the EU and stimulate the deployment of low-carbon technologies and ambitious climate policies in third countries.

- Mixed opinions on the effectiveness of current measures to limit carbon leakage and on the ability of other regulatory measures to effectively reduce GHG emissions.

- On average, stakeholders somewhat disagree that the current measures under the EU ETS can address carbon leakage in case of enhanced climate ambition for the EU.

- Stakeholders seem to attach particular importance to three additional objectives of the CBAM (on top of reducing the risk of carbon leakage): i) enabling policies reducing carbon emissions in the EU; ii) fostering the reduction of greenhouse gas emissions on a global scale; and iii) ensuring a ‘level playing field’ for all producers bearing ‘carbon-driven’ costs.

Legend: 0 = Strongly disagree 1 = Somewhat disagree 2 = Somewhat agree 3 = Strongly agree
**OPC – Design options and coverage**

### Design Options

- **a)** Import tax
- **b)** Extension of ETS
- **c)** Notional ETS
- **d)** Consumption tax (excise or VAT type)

### Scope of Emissions

- **a)** Direct and Indirect emissions (production)
- **b)** Complete Value chain
- **c)** Differentiate between finished/intermediary and basic products
- **d)** Cover international transport of goods

### Top 10 Sectors

- **Electricity**
- **Cement, lime and plaster**
- **Iron, Steel and ferro-alloys**
- **Chemicals, fertilisers, plastics**
- **Extraction of crude petroleum**
- **Precious and non-ferrous metals**
- **Animal production**
- **Mining hard coal**
- **Pulp, paper and paperboard**
- **Extraction of natural gas**
OPC – Implementation issues

- Carbon content
- Independent third party verification
- Export rebate
- Circumvention risks
- Exemptions
OPC – Expected Impacts

Positive
- Encourage consumption of less carbon intensive products
- Innovation/promotion of clean technologies
- Competitiveness of sectors covered
- Investment in EU
- Improve effectiveness climate change policies
- Reduce carbon emission globally
- Promote adoption of ambitious climate policies in third countries
- Avoid job losses

Negative
- Increased costs for EU businesses in downstream sectors
- Increase the price of consumer products including those related to basic needs
- Lead to job losses in downstream sectors (by increasing the cost of their inputs)
- Generate potential negative effects on the living standards of the poorer segments of the population
- Increase administrative burdens for importers, exporters and public administrations in the EU
OPC – Key Challenges

- Economic and environmental impacts
- Technical design (eg. Calculation of carbon content, default values)
- Balance the burden between EU and non-EU companies
- Ensuring robust data collection and verification process
- Retaliation measures
- Implemented in a way to strengthen global climate ambition
- Ensure competitiveness of EU industry on global market
- Contributing to decarbonisation of strategic sectors through innovation and investment
- Definition of sectoral scope of CBAM
- Alignment with EU ETS
Thank you!