

Climate Friendly Materials Platform feedback on the Commission's inception impact assessment of carbon border adjustment mechanism

Policy options to be considered

We welcome the readiness of the Commission to consider the consumption-based measures covering both domestic and imported products as one of the policy options, as well as the recognition of the importance of CBAM complementarity with the EU ETS. It is crucial to include the possibility of amending the current EU ETS rules to accommodate the newly introduced instruments. A holistic approach to the revision of the carbon pricing policy framework allows more flexibility and better alignment of new and existing regulatory tools.

In our view, the Commission should consider the inclusion of consumption in the EU ETS via 1) introducing a climate contribution, i.e. a levy on the consumption of emission-intensive products based on the EU ETS product benchmarks, 2) strengthening the free allocation mechanism, i.e. introducing full dynamic allocation of free allowances and abandoning cross-sectoral correction factor. Combination of these two measures ensures that carbon pricing covers both production and use of emission-intensive products in the EU while providing a level playing field for the European producers.

Impacts to be considered

CBAM policy options need to be viewed from the perspective of broader climate policy goals achieved by the policy framework as a whole. These include:

- ensuring that carbon price signal covers the whole value chain, i.e. both production and use of the emission-intensive basic materials,
- providing a predictable and credible regulatory framework for investments based in the EU. It should minimise the uncertainty related to the future evolution of such policy parameters as the level of emission benchmarks or differences in carbon taxation affecting domestic production and imports,
- raising revenue which can be used to support climate goals (e.g. funding development and early deployment of low-carbon industrial technologies, supporting just transition in carbon-intensive regions, scaling up international climate finance) as well as addressing distributional impacts of carbon pricing (e.g. reducing labour taxes or providing direct refunds to households),
- providing broadly defined incentives for scaling up global climate action. This includes not only putting direct pressure on the EU partners associated with border carbon taxes but also creating a robust regulatory framework to develop and commercialise affordable low-carbon industrial solutions. Furthermore, providing a regulatory blueprint which can be used by countries outside the EU to regulate their industrial emissions should also be considered as an important contribution to global climate action.

In our opinion, a combination of consumption-based levy and strengthened free allocation allows the EU to deliver a consistent and robust carbon pricing signal for the production and use of industrial goods in a way which can be sustained over an extended time without compromising the competitiveness of European industry or risking the international trade conflict. This approach also

provides additional financial resources for funding the transition towards climate neutrality and allows the EU to lead the global climate efforts by example, as it has successfully done with the renewable energy sources.

References

More details on the concept of inclusion of consumption in the EU ETS through the introduction of climate contribution can be found in the following reports:

- *Inclusion of consumption of carbon-intensive materials in emissions trading* – overview of the policy option (<https://climatestrategies.org/wp-content/uploads/2015/03/Inclusion-of-Consumption-in-ETS-report.pdf>),
- *Building Blocks for a Climate-Neutral European Industrial Sector* – presenting the role of climate contribution as a part of the broader policy mix for decarbonising the European industry (<https://climatestrategies.org/wp-content/uploads/2019/10/Building-Blocks-for-a-Climate-Neutral-European-Industrial-Sector.pdf>).

Who we are

Convened by Climate Strategies, the Climate Friendly Materials Platform analyses the transformation of basic material production and use to achieve carbon neutrality by 2050. Its collective aim is to aid progress toward nationally-led industrial decarbonisation policy frameworks compatible with long-term EU strategy and to capture the potential of a just and inclusive clean energy transformation. The CFM Platform facilitates exchange between leading analysts, policymakers, industry leaders and other relevant stakeholders. It brings together leading think tanks and university research groups in Belgium, France, Germany, Hungary, the Netherlands, Poland, Spain and Sweden to enhance Europe's analytic understanding of how individual instruments fit together into a coherent policy package.