

Carbon border adjustment mechanism

Inception impact assessment (Ref. Ares (2020)1350037 - 04/03/2020)

Context

Fuels Europe favours a common CO₂ market across the whole economy based on a single carbon price. But until consistency on worldwide carbon pricing and ambition can be achieved, FuelsEurope thus welcomes the EC initiative to examine proposals for mechanisms that would reduce the risk of carbon leakage as the EU increases its climate ambition in the European Green Deal context.

Any mechanism should be designed such that it:

- improves the effectiveness of policies aimed at fighting climate change in the EU and globally
- does not deteriorate the global competitiveness of the EU industrial sectors

Feedback on the inception impact assessment

Regarding the **main issue which this initiative aims to tackle** (the risk of carbon leakage), FuelsEurope encourages the Commission to not limit the scope of its study to “*transfer of production outside the EU*” but also to anticipate any “*transfer of investment outside the EU*”.

FuelsEurope understands that the study currently underway to **identify the risk of carbon leakage** in the third and fourth trading phases of the EU ETS will involve the ETS sectors as part of a dedicated assessment (ETS directive related). In that respect, it is of utmost importance that both ETS and CBAM assessments are conducted in parallel with a high level of involvement of the sectors at stake.

How does a CBAM relate to the current measures to avoid the risk of carbon leakage?

As referred to in the Communication “A New Industrial Strategy for Europe” this CBAM should be supported by strengthening the current tools to tackle carbon leakage.

FuelsEurope considers that any CBAM cannot be a comprehensive alternative to measures that currently address the risk of carbon leakage in the EU if it only applies to imports.

Impact assessment

Since the impacts of a CBAM will vary much depending on the design and in particular of the sectors covered, it is of utmost importance that the EU refining sector (one of the most exposed sectors according to the decision concerning the determination of sectors and subsectors deemed at risk of carbon leakage for the period 2021 to 2030) is thoroughly impact assessed as part of the studies undertaken by the Commission.

Elements to be assessed

The impact assessment should consider the current and future internal EU carbon price resulting from both direct and indirect emissions. The indirect costs are incorporated in the price of electricity passed to exposed energy-intensive sectors and their impact is expected to increase in the future with the further electrification of industrial processes.

In designing a CBAM the potential deterioration of the competitiveness of both products exported outside the EU and products along the upstream and downstream value and supply chains will also have to be carefully considered.

As a result of this comprehensive impact assessment, it is expected that the Commission comes up with proposals on how those other carbon leakage related impacts shall be addressed.

Further consultation steps:

FuelsEurope will participate in the upcoming public consultation and give its views on all the aspects of a CBAM and together with Concawe remains ready for a more technical consultation with a view to provide any useful inputs and robust data that are needed to conduct the upcoming impact assessments.