



3.12.2020

**COMPROMISE AMENDMENTS**

**Jens Geier**

(PE655.622v01-00)

Towards a WTO-compatible EU carbon border adjustment mechanism  
(2020/2043(INI))

## SUGGESTIONS

The Committee on Industry, Research and Energy calls on the Committee on Budgets, as the committee responsible, to incorporate the following suggestions into its report:

### RECITALS

#### CA A (covers AM 1)

- A. *Whereas the Article XX of The General Agreement on Tariffs and Trade (GATT) allows WTO members to implement measures that are necessary to protect human, animal or plant life or health (b), or natural resources (g);*

### ARTICLES

#### CA 1

**based on PARAGRAPH 1 (covers AMs 5, 6pc1, 7-14, 16-19, 35cp3, 54cp2, 70, 76)**

1. *Welcomes the Paris Agreement as an international commitment to fight climate change and underlines the necessity to conduct a thorough evaluation of all international rulebooks regarding their compatibility with these climate goals; notes that the EU is responsible for 9% of global GHG emission levels and is the third-biggest emitter of greenhouse gases in the world; however also notes with concern the lack of sufficiently ambitious international climate efforts and measures in implementing the decisions made under this Agreement, as well as the withdrawal of the USA from it;*
- 1a. *Welcomes the European efforts in this regard like the Green Deal and the goal to achieve a cost-efficient, just, socially balanced and fair transition leading to climate neutrality by 2050 at the latest; stresses the need to uphold 60 % reduction of greenhouse gas emissions by 2030; while making sure that the polluter-pays principle is consistently applied;*
- 1b. *Believes that asymmetric climate protection measures are not sufficient to combat climate change; underlines that trade policy can and should be used to promote a positive environmental agenda, whilst maintaining EU's competitiveness, and to address major differences in environmental ambition between the EU and the rest of the world; believes furthermore that a WTO compatible EU carbon border adjustment mechanism ("the mechanism") can incentivise low-emission imports, market creation of low-emission technologies and products in the EU leading to an urgently needed reduction of EU imported emissions; considers that the mechanism can lead to an increase in international efforts to combat climate change and can be a first step towards international carbon pricing when implemented in proportional and balanced way; states further that the mechanism should lead to the creation of*

*a virtuous circle to combat climate change on an international level, e.g. by making it part of the negotiations for multilateral environmental agreements;*

- 1c. Notes that the EU is the world largest carbon importer and that the carbon content of exported goods from Europe lies well below the carbon content of imported goods; deduces that European efforts to combat climate change are higher than the average international efforts; highlights that in order to measure the overall climate impact of the Union, a solid reporting method is needed that takes into account the emissions of imported goods and services to the EU;*
- 1d. Emphasises that the main goal of the mechanism is to facilitate the achievement of carbon neutrality and to incentivise international efforts to combat climate change; underlines that the mechanism should enable European industry to contribute substantially to European climate goals and third countries to contribute substantially to international climate goals by engaging substantial efforts towards the decarbonisation of industries' manufacturing processes, and at the same time this should create a level playing field for the EU industry; points furthermore to the the emissions resulting from transport of imports that are to be considered when calculating carbon content pricing; considers it necessary that the scope of the mechanism covers as large a part of the carbon footprint of a product as possible, i.e. through the inclusion of emissions from energy in production and ultimately along the value chain while not causing internal market distortions notably on downstream markets;*

<p>Alternative CA 1</p>
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<p>based on PARAGRAPH 1 (covers AMs 5, 6pc1, 7-14, 16-19, 35cp3, 54cp2, 70, 76)</p>
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- 1. Welcomes the Paris Agreement as an international commitment to fight climate change and underlines the necessity to conduct a thorough evaluation of all international rulebooks regarding their compatibility with these climate goals; notes that the EU is responsible for 9% of global GHG emission levels and is the third-biggest emitter of greenhouse gases in the world; however also notes with concern the lack of sufficiently ambitious international climate efforts and measures in implementing the decisions made under this Agreement, as well as the withdrawal of the USA from it;*
- 1a. Welcomes the European efforts in this regard like the Green Deal and the goal to achieve a cost-efficient, just, socially balanced and fair transition leading to climate neutrality by 2050 at the latest; while making sure that the polluter-pays principle is consistently applied;*
- 1b. Believes that asymmetric climate protection measures are not sufficient to combat climate change; underlines that trade policy can and should be used to promote a positive environmental agenda, whilst maintaining EU's competitiveness, and to address major differences in environmental ambition between the EU and the rest of the world; believes furthermore that a WTO compatible EU carbon border adjustment mechanism ("the mechanism") can incentivise low-emission imports, market creation of low-emission technologies and products in the EU leading to an urgently needed reduction of EU imported emissions; considers that the mechanism*

*can lead to an increase in international efforts to combat climate change and can be a first step towards international carbon pricing when implemented in proportional and balanced ways; states further that the mechanism should lead to the creation of a virtuous circle to combat climate change on an international level, e.g. by making it part of the negotiations for multilateral environmental agreements;*

- 1c. Notes that the EU is the world largest carbon importer and that the carbon content of exported goods from Europe lies well below the carbon content of imported goods; deduces that European efforts to combat climate change are higher than the average international efforts; highlights that in order to measure the overall climate impact of the Union, a solid reporting method is needed that takes into account the emissions of imported goods and services to the EU;*
- 1d. Emphasises that the main goal of the mechanism is to facilitate the achievement of carbon neutrality and to incentivise international efforts to combat climate change; underlines that the mechanism should enable European industry to contribute substantially to European climate goals and third countries to contribute substantially to international climate goals by engaging in substantial efforts towards the decarbonisation of industries' manufacturing processes, and at the same time this should create a level playing field for the EU industry; points furthermore to the emissions resulting from transport of imports that are to be considered when calculating carbon content pricing; considers it necessary that the scope of the mechanism covers as large a part of the carbon footprint of a product as possible, i.e. through the inclusion of emissions from energy in production and ultimately along the value chain while not causing internal market distortions notably on downstream markets;*

## CA 2

based on PARAGRAPH 2 (covers AMs 21-34, 55, 99, 108, 109, 120)

- 2. Stresses that sufficient international climate efforts, such as a robust, widespread and consistent international carbon pricing and fully competitive low-emission technologies, products and production processes will render the mechanism obsolete over time; considers that climate change is a global problem that requires global solutions, hence believes that the EU should continue to support the establishment of a global framework for CO2 price in line with Article 6 of the Paris Agreement; encourages the Commission to design the mechanism with a clear and ambitious timeline for the implementation, and evolution of the mechanism; recalls that some technical solutions for mitigating CO2 are still at the pilot stage and thus calls on the Commission to continue efforts to develop them further; calls further on the Commission to ensure targeted and timely carbon leakage protection for all sectors considered to be at risk; calls finally on the Commission to design the mechanism as part of a comprehensive and long-term oriented policy package that is consistent with achieving a highly energy and resource efficient, net-zero greenhouse gas economy by 2050 at the latest;*
- 2a. Underlines further that the mechanism should-be a part of a wider set of policies and complementary measures with the goals to enable and promote investments in low carbon industrial processes, reduce emissions intensity of industry and*

*incentivise energy efficiency measures and the use of renewable energies; states that the mechanism needs to be accompanied by an industrial policy that is environmentally ambitious economically sound, socially fair and strengthens resilience and global competitiveness; suggests further to support the renovation of the building stock, raw construction material substitution, the implementation of the Just Transition Mechanism and incentives to purchase low carbon materials through public procurement, as well as strong public innovation policies excluding support for fossil lock-in technologies; stresses the need to consider the complementary role of improved product standards in line with the EU Circular Economy Action Plan;*

- 2b.** *Recalls the results achieved by the Union through the rules on product requirements and labelling, which were able to stimulate responsible consumption, engage European citizens, and support industrial competitiveness and innovation; calls on the Commission to explore analogous product policies that could push forward new standards and create lead markets on low-carbon, resource-efficient products and technologies to secure the transition to a sustainable economy, as well as help to guarantee minimal negative environmental impacts from product use;*

### CA 3

based on PARAGRAPH 3 (covers AMs 6pc2, 15, 19, 20, 36, 37, 38cp1, 39, 40, 49cp1, 50-51, 53, 78)

- 3.** *Emphasises that asymmetrical climate actions worldwide, and more specifically the lack of ambitious climate actions by European trading partners, could increase the risk of carbon-leakage leading to an increase of global emissions and a competitive disadvantage on international markets for the EU industry and that they hence could put at risk European jobs and value chains; stresses that the EU industry suffers increased economic pressure due to cheap imports from trading partners and the COVID-19 crisis; urges thus the Commission to ensure a more targeted and effective climate and carbon-leakage protection in the design of the mechanism;*
- 3a.** *Stresses that preventing the risk of carbon leakage goes hand in hand with preserving EU industrial competitiveness and avoiding emission transfers to third countries via the re-allocation of industrial activities, investments and jobs; highlights that activities taken in order to prevent any risk of carbon leakage should be in line with Climate goals; stresses that strategic sectors are particularly exposed in terms of impact on their output and investment capacity; underlines the need to assess the possible risks of extra-EU industrial delocalisation and outsourcing; points furthermore to the need to create incentives for third country governments and exporters to reduce their emissions;*
- 3b.** *Recalls that the EU's climate policy, industrial policy and the goal to maintain and increase sustainable economic growth must go hand in hand; stresses that any mechanism must be embedded into our industry strategy, creating an incentive for industries to produce clean and competitive products;*

#### CA 4

based on PARAGRAPH 4 (covers AMs 46, 54cp1, 55-58, 60, 62-65)

4. Suggests a progressive *and sector-specific* mechanism *firstly including, after a thorough impact assessment*, sectors with the highest carbon content and trade intensity, *such as energy intensive industries of steel, cement and aluminium, power sector, plastics, chemicals and fertiliser* being enlarged over time; *believes that such a design could reduce international retaliation and serve as a test phase for EU industry*; stresses *however* that this should not lead to internal market distortions *or excessive administrative burden, which could limit fair, open and rule-based market competition and have a particularly adverse effect on SMEs or become a tool for protectionism*;

#### CA 5

based on PARAGRAPH 5 (covers AMs 52, 66-69, 71, 73-77, 80-86, 111, 118)

#### TRADE ASPECTS

- 5-a. *Emphasises that European industry including SME should have the possibility to access global supply chain and global markets to remain competitive; expresses its deep concerns over the effect of the erosion of the multilateral trading system, increased trade barriers and trade conflicts on the European trade balance; underlines that the mechanism be designed in a way that reduces the risk of renewed trade disputes therefore calls on the Commission to take a multilateral approach, without prejudice to the mechanism's effectiveness, through continued dialogues with its international trading partners, especially with those with different approaches to climate protection with the aim to avoid possible international retaliation measures against the EU*;
5. Urges the Commission *to* make the mechanism non-discriminatory and compatible with *WTO acquis and provisions in the EU's trade agreements, preferably by using articles XX(b) and (g) of GATT agreement; encourages the Commission to ensure a level-playing field in international trade, bearing in mind the EU position of the world's largest trading block; stresses that due respect must be paid to the principles of a free and fair global market*;
- 5a. *Calls on the Commission to keep promoting a global framework of CO2-pricing and facilitating trade in climate and environmental protection technologies for instance through trade policy initiatives such as the WTO Environmental Goods Agreement; stresses that the Union can play a pioneering role with ambitious energy and sustainability chapters in its trade agreements*;

#### METHODOLOGY

- 5b. *Underlines that a well-working mechanism should ensure the reduction of imported emissions into the EU and provide the most effective climate and protection against*

*the risk of carbon-leakage while respecting WTO rules; stresses that the mechanism should be designed in way that ensures its effective and simple application; and at the same time prevents circumventing behaviour such as resource shuffling or importing semi-finished or end products not covered under the mechanism;*

- 5c.** *Believes that the actual carbon content of the imported good should be taken into account in the calculation method to the maximum extent possible, while not causing additional difficulties and disadvantages for European industries; notes the difficulties in gathering verified and reliable data on carbon contents of an end- or intermediate products due to international value chains; hence asks the Commission to assess technical feasibility and the availability of reliable data from importers and exporters, e.g. by exploring the potential of advanced technologies like block chain, and to propose solutions if needed; stresses hence the importance of establishing a thorough monitoring, reporting and verification system in order to evaluate the efficiency of the mechanism; considers that independent third party verification could be considered as a tool to ensure the reliability of the data;*
- 5d.** *Calls on the Commission to provide technical advice and support to industries at home and abroad, especially for SMEs, in setting up reliable greenhouse gas emissions accounting systems for imports in order to maintain a strong European industry and not causing technical obstacles with trading partners; calls further on the Commission to ensure that importers are allowed to demonstrate low carbon content of their products, giving them the opportunity to lower the carbon payment or be exempt for these products; calls on the Commission to guarantee feasibility and compatibility with the ETS;*
- 5e.** *Notes further that, in order to prevent unfair competition on the European market, no competitive disadvantages should be created by the mechanism amongst competing materials; underlines that the most climate friendly materials should not suffer competitive disadvantages;*
- 5f.** *Believes that the mechanism should take account of the specific situations of least developed countries that have not emitted much historically; stresses that it should not hamper their sustainable development and that their situation should not be further aggravated by relocating polluting industries which are detrimental to the environment and local populations;*

<b>CA 6 - Free Allowances</b>
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<b>(covers AMs 35cp2, 47, 49cp2, 61, 79, 101cp2)</b>
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- 6.** *Calls on the Commission to analyse the possibility to start the implementation of the mechanism with a gradual phasing out of free allowances which would be kept during a transitional phase until the CBAM is fully phased in and efficient; stresses that there should be no double protection and that the mechanism needs to be WTO compatible;*

## Alternative CA 6 - Free Allowances

(covers AMs 35cp2, 47, 49cp2, 61, 79, 101cp2)

6. *Emphasizes that the ETS is and should remain the key market based instrument to cost-effectively reduce CO2 emissions, this includes the system of free allowances; Calls on the Commission to consider any design option that allows the existing carbon leakage measures to co-exist with the mechanism and to maintain free allowances and electricity price compensation under the ETS; stresses that there should be no double protection and that the mechanism needs to be WTO compatible;*

## CA 7 - Export Rebates

(covers AMs 38cp2, 41-43)

7. *Invites the Commission to assess the possibility of establishing fully WTO-compatible export rebates for the most virtuous industrial actors in terms of carbon efficiency in the design of the CBA;*

## CA 8

based on PARAGRAPH 6 (covers AMs 20, 59, 87-98)

8. Underlines that *according to the European Parliament resolution of 14 November 2018 on the Multiannual Financial Framework 2021-2027 and the Parliament's legislative resolution adopted in plenary on the 16 September<sup>1</sup> 2020 on Own resources* , the resources incurred by the mechanism *shall* be considered *European* own resources;
- 8a. *Calls on the Commission to take into account the social dimension of the mechanism in its coming proposal in order to ensure fair burden-sharing; notes that the mechanism could lead to higher product prices for consumers; underlines that consumers, especially those with low incomes, should not suffer from a higher burden on their purchasing power; calls on the Commission and Member States to assess the potential impacts on living standards, especially of those of vulnerable groups of our society and of Member States heavily relying on imports from third countries, and to take effective measures, to support low-income households and work towards compensating the risk of any rise in price on imported goods as a result of the implementation of the mechanism;*

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<sup>1</sup> Texts adopted, P9\_TA-PROV(2020)0220



9. Calls on the Commission to conduct *a thorough* impact assessment on *all available options of* different mechanisms and designs *and alternatives before presenting a legislative proposal in order to evaluate in how far they incentivize* international climate action and prevent the risk of *carbon and investment leakage and to see which instrument achieves the goal of global climate ambition in a more effective way; advises the Commission to take the objective of achieving climate neutrality by 2050 as the leading factor in the choice of the form of the mechanism;*
- 9a. *Calls on the Commission, in its impact assessment, to identify measures for sectors where the risk of carbon leakage is highest while taking into consideration the sectors' competitiveness; calls on the Commission to assess the effects of the mechanism on trade partners, including on our neighbouring countries and developing countries; calls further on the Commission to make the results of the impact assessment publicly available as soon as possible, and before the publication of its legislative proposal;*
- 9b. *Calls for a special evaluation of the impact of the mechanism on SMEs and on competition within the internal market; calls for the creation, if needed, of a support mechanism for SMEs to successfully adjust to the new market reality, thereby preventing them from being victims of unfair practices by larger market players;*
- 9c. *Emphasises the importance of the European Parliament to ensure the representation of European citizens and interests, as well as for the achievement of EU priorities such as climate protection, sustainable growth and international competitiveness; therefore calls on the Commission and the Council to fully involve the European Parliament as co-legislator in the legislative process to establish the mechanism;*