**EU Green Deal – Carbon Border Adjustment mechanism**
**EDF Contribution**

The Climate Law, published by the Commission on 4 March 2020, includes the goal of climate neutrality for the EU by 2050 and suggests an increased climate ambition to reduce GHG emissions by 50-55% by 2030 from 1990 levels. Reaching these targets is likely to involve a significant increase in EU ETS carbon price that can lead to carbon leakages. To allow competitive EU industries to decarbonize their processes, EDF supports the principle of a Carbon Border Adjustment mechanism to offer a level playing field between EU industrial products and imports from third countries under less stringent carbon pricing policies.

The power sector in Europe is already affected by carbon leakages as fossil fuel based electricity is imported to the EU ETS region mainly from Russian, Ukraine, the Western Balkans and Morocco. Unlike domestically produced electricity, this imported electricity is not subject to carbon pricing which leads to markets distortions and undermines the effectiveness of the EU ETS to decarbonize the power sector. Carbon leakage in the electricity sector should be combatted. A CBA mechanism could be easier to design for the power sector than for others because some methodologies already exist to estimate the carbon content of electricity.

Other industrial sectors - including electro-intensive industries due to the indirect price of carbon- are likely to be at risk of carbon leakages given their high energy consumption and their exposure to international markets (eg. cement, steel, aluminum, chemicals). In theory a CBA mechanism would be an efficient tool to ensure that all products are subject to a carbon pricing similar to the one applied in the EU and help European industries to decarbonize. From a practical point of view, significant technical (calculation of carbon content of imported goods), legal (WTO compliance), strategic (possible retaliatory measures) and political challenges will necessarily arise during the design and implementation of such a mechanism, which will need to be addressed. An important part of the work will also relate to the selection of sectors subject to this measure. The Commission should conduct an in-depth study on possible impacts of a CBA mechanism on strategic low carbon value chains – mainly renewables and storage – for which imports currently play a role in the development of cost-competitive projects.

Different options can be designed to implement a CBA mechanism, either through a tariff on importations or through the participation to a carbon trading scheme. One possible option is therefore the participation of importers of products from third countries in the EU-ETS to replicate the same conditions as for domestic producers who pay a carbon price. If importers are made subject to the EU-ETS and entitled to purchase allowances, the demand is expected to increase, which could have a significant impact on the EU-ETS market balance and drive prices up. Another option could be a tariff on importations, the level of which varies automatically with the traded EU ETS price to ensure a level playing field. In any case, the EU-ETS must always provide a significant and predictable CO2 price signal that puts the EU on a cost-effective decarbonisation pathway.

Finally, it should be stressed that CBA mechanisms are not the silver bullet for achieving an ambitious climate goal in the European industry. Other policy tools to mitigate carbon leakages risks and encourage low carbon investments in energy-intensive industrial sectors will be needed for preparing the future. A CBA mechanism should be part of a wider package of complementary policies to achieve carbon neutrality in a cost-efficient and socially acceptable way. Bilateral agreements on climate ambition/policy could be a complementary way to engage other countries in implementing policies to reduce their GHG emissions. As massive investments will be needed in industry to undertake appropriate restructuring of value chains and decarbonize their processes, the EU should also focus on implementing measures to trigger the development of a competitive low carbon industry in Europe. Support for research and innovation and a climate-driven industrial policy will therefore be crucial in establishing a true EU leadership.