



# CARBON BORDER ADJUSTMENT MECHANISM

A new, green way of pricing carbon in imports to the EU

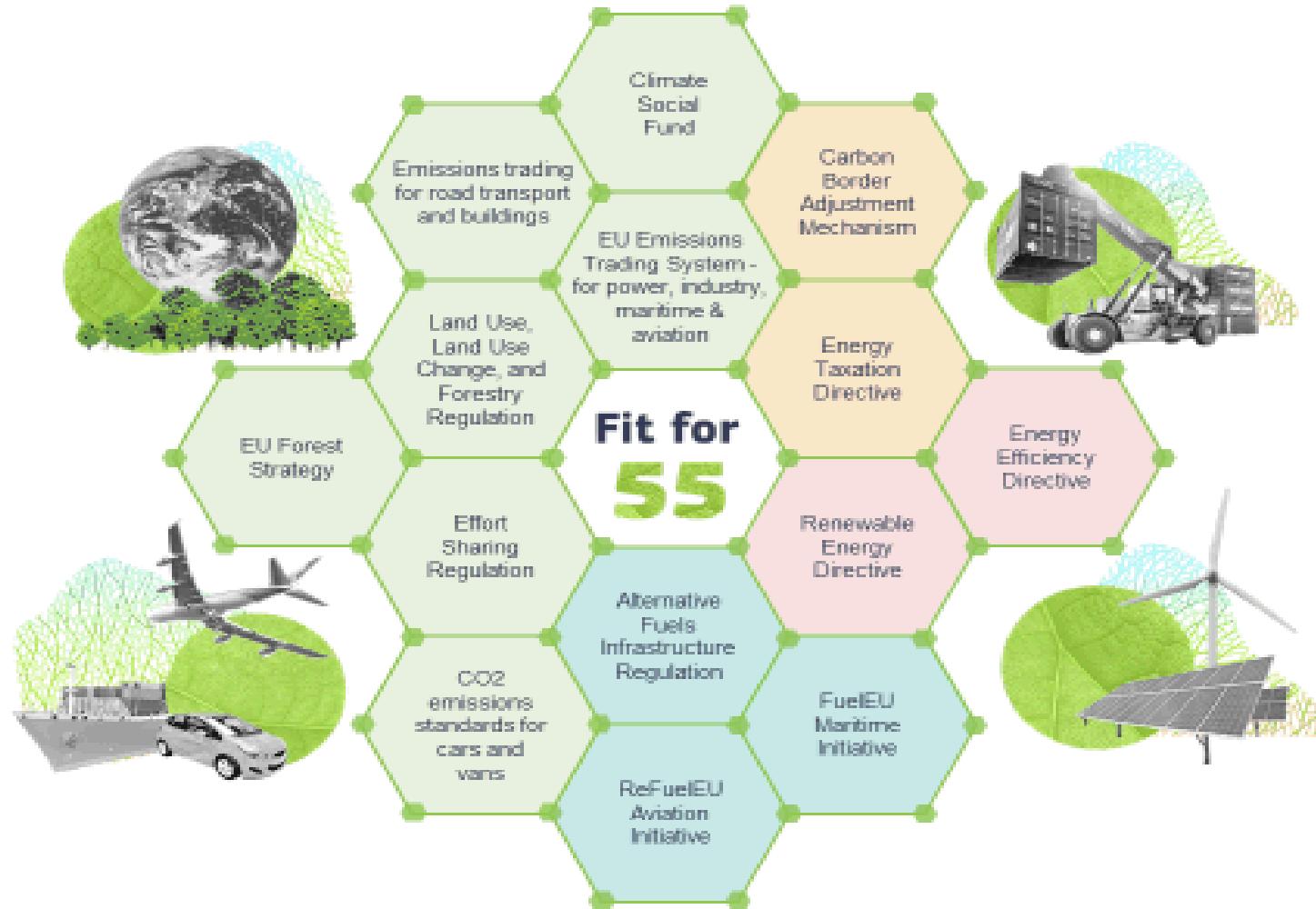
The proposal

*ENVI Committee, 9 September 2021*

# European Green Deal

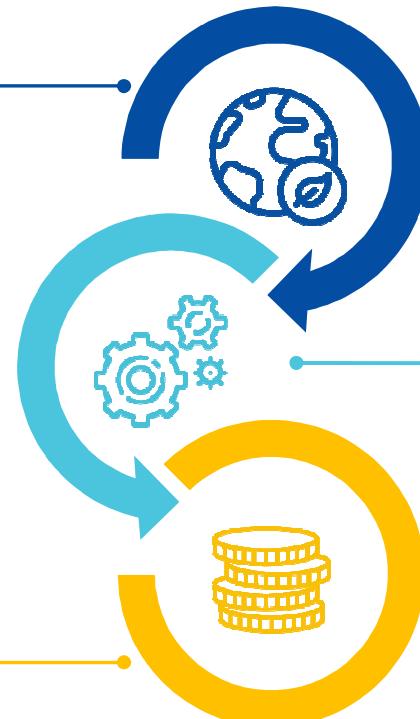
- Aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy.
- Aims to make the EU the first climate-neutral continent in 2050.
- Aims to reduce carbon emissions by 55% in 2030.

# Fit for 55



# CBAM: Objectives

Prevent carbon leakage to ensure effectiveness of EU climate policy



Generate revenues  
Possible EU Own Resource

## Change behaviours

- Incentivise 3rd country producers to **reduce their emissions**
- Incentivise 3rd countries to adopt **green policy frameworks**

# CBAM: Key elements of design

Mirror EU **carbon pricing** through new mechanism for imports into EU



Complement the EU's Emissions Trading System (ETS) measures

**Comply with WTO** and be fully in line with international trade rules

Focus on **carbon intensive sectors**

# CBAM: Basic Concept

- **Equal carbon pricing**
    - EU businesses pay a **carbon price on their production in the EU**
    - **Imports will need to pay a carbon adjustment**, corresponding to the price they would have paid if the goods had been produced under the EU's carbon pricing rules (ETS).
    - The CBAM charge will be adjusted to reflect the level of EU **ETS free allowances** allocated to EU production of sectors in scope.
  - **Non double pricing**
    - If a non-EU producer can show that they have already paid a carbon price for the production of the imported goods in a third country, that amount can be fully deducted for the EU importer.
- Gradual phase-in**, with simplified procedures, to allow businesses to adapt.

# CBAM: Basic Concept

- **Climate objective**
  - The sole objective of CBAM is to reduce CO2 emissions in the EU and globally
- **Regulatory nature**
  - CBAM reflects the effects of the EU ETS on imports, it is not a tax
- **Builds as much as possible on the EU ETS** with some minor differences when duly justified
  - Calculation of Prices
  - Tradability of Certificates
  - Quantitative limit
  - Validity over time
  - Declarative system
  - Sanctions

# CBAM: Sectors

- In the **first phase**:



CEMENT



IRON & STEEL



ALUMINIUM



FERTILISER



ELECTRICITY

- Selected on basis of 3 criteria:
  - ✓ *High risk of carbon leakage (High carbon emissions; High level of trade)*
  - ✓ *Covering more than >45% of CO2 emissions of ETS sectors*
  - ✓ *Practical feasibility*
- In a **second stage**, extended to other sectors and indirect emissions
- Compliant with WTO non discrimination rules

# CBAM: Gradual phase-in

Based on the purchase of **certificates** (€ / tonne of CO<sub>2</sub> emitted)

Price of certificates based on the **average trading price of EU ETS** allowances in the week prior to import

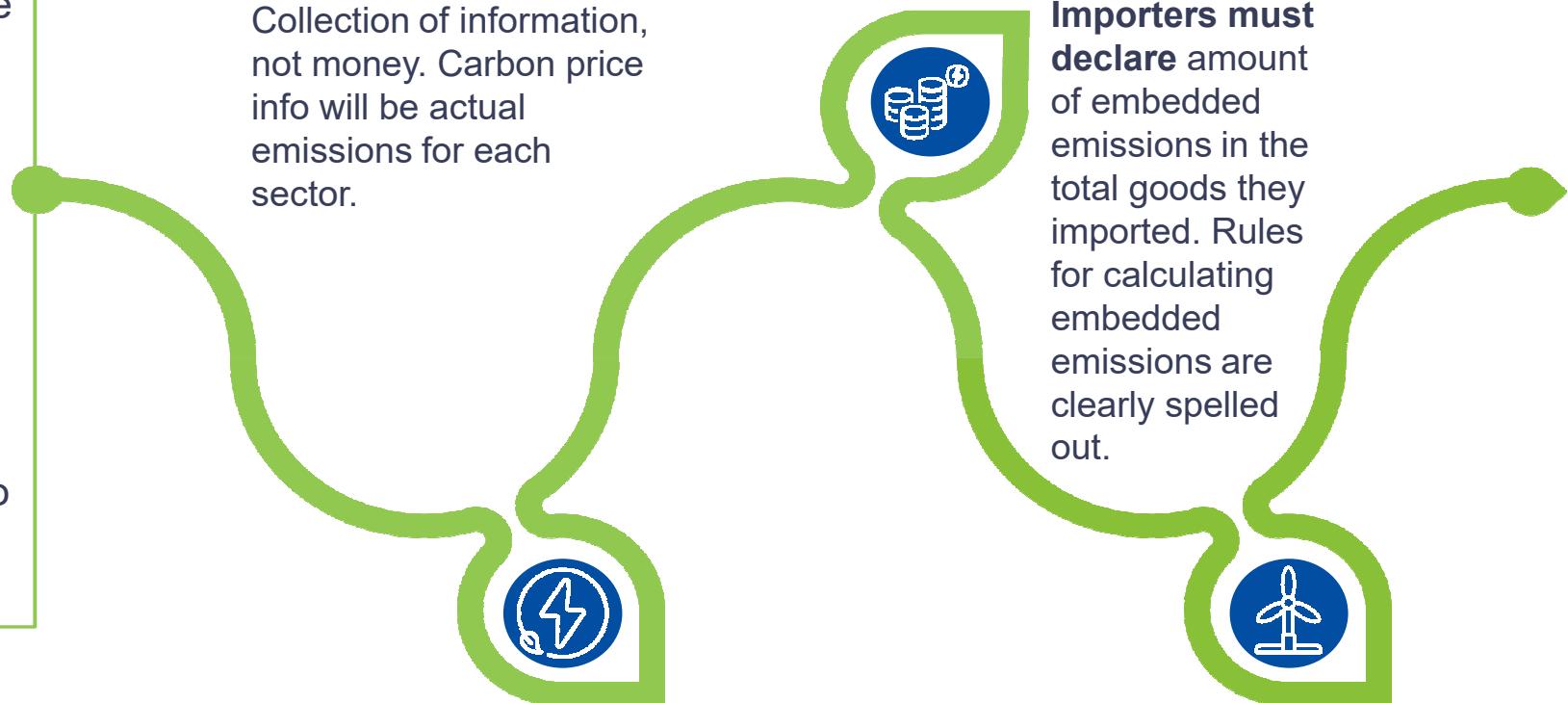
**Gradual phase-in** with simplified procedures, to allow businesses to adjust

## Transitional phase 2023-25

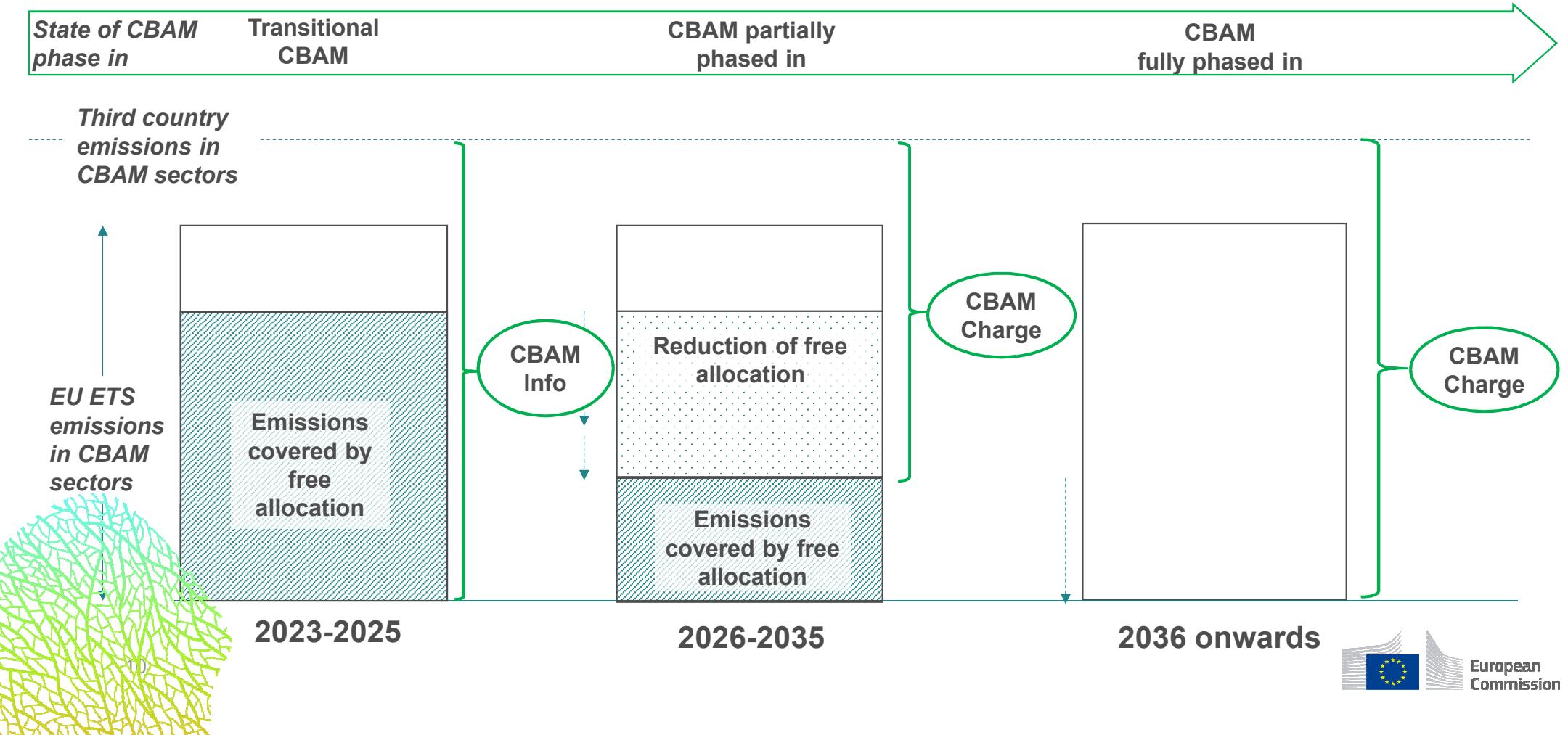
Collection of information, not money. Carbon price info will be actual emissions for each sector.

## After transitional phase 2026 onwards

Importers must **declare** amount of embedded emissions in the total goods they imported. Rules for calculating embedded emissions are clearly spelled out.



# Phase in-phase out of CBAM and EU ETS emissions/free allocation proposal



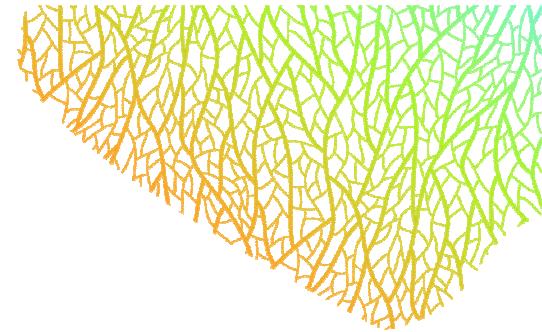
# CBAM: Interaction with ETS

CBAM will only apply to the proportion of emissions that do not benefit from free allowances under the EU ETS.

In the first phase (up to 2026), CBAM will only **collect information** on actual emissions

From 2026, **CBAM will be collected to reflect real emissions in third countries and the revised EU ETS** - especially the reduction of available free allowances.

# CBAM: Practical implementation EU importers



**Register** with national authorities and can **buy CBAM certificates** from them.

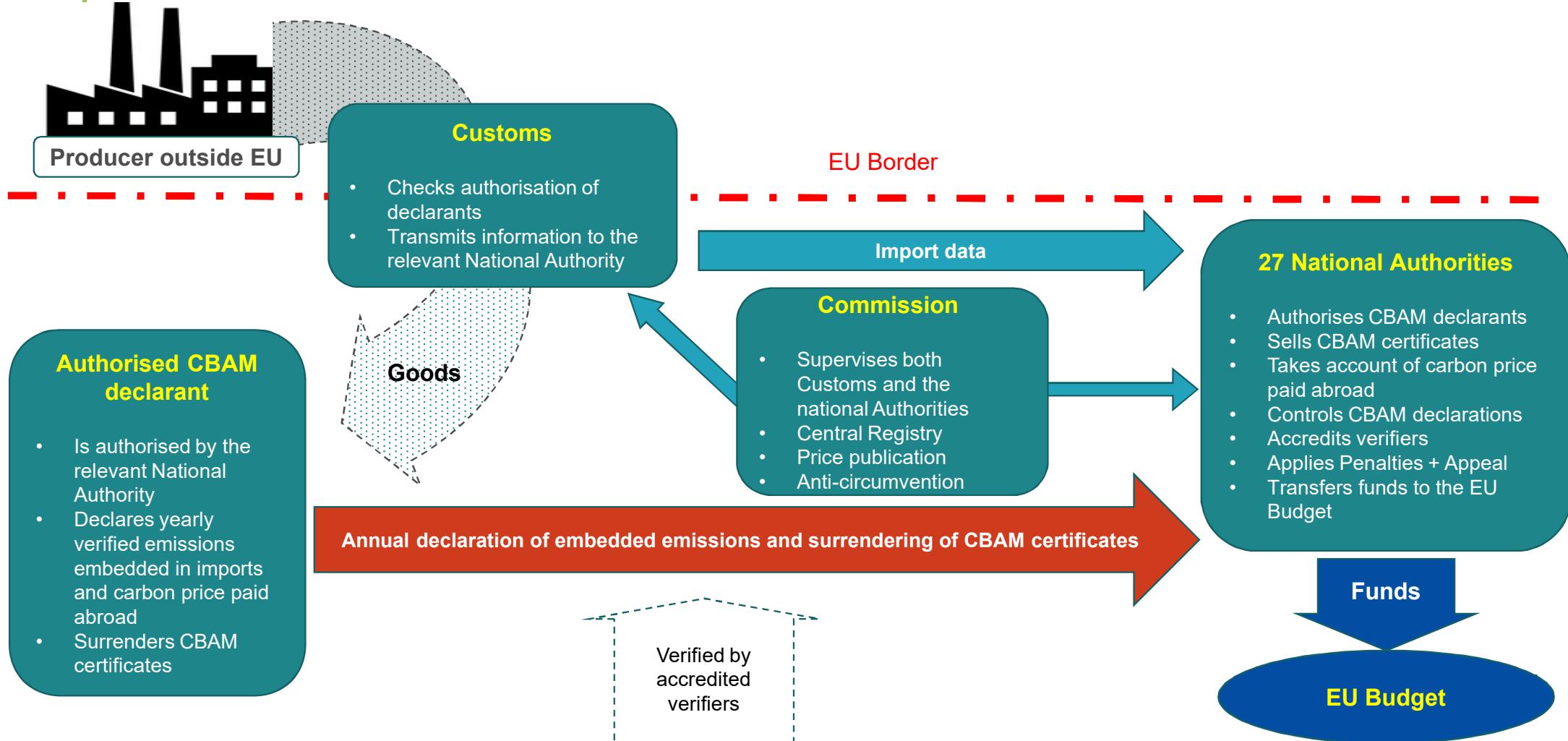
**Declare** the quantity of goods and the embedded emissions in those goods for the preceding year, by 31 May each year.

**Surrender the CBAM certificates** corresponding to amount of GHG in the imports

Can deduct any price they **already paid** in a third country for the carbon in the production of the imported goods

Cannot trade certificates BUT can **return up to 1/3 unused certificates** to authorities.

# Administration



# International Dimension

- Preparatory work:
  - Extensive bilateral discussions with third countries and international organisations
  - WTO committees discussing compatibility with multilateral trade rules.
- Climate policy global by nature – carbon pricing discussed at international level. **G20 Finance Ministers Communiqué from 10 July:**

*“This [policy mix] should include a wide set of tools, such as... the use of carbon pricing mechanisms and incentives, while providing targeted support for the poorest and the most vulnerable.”*

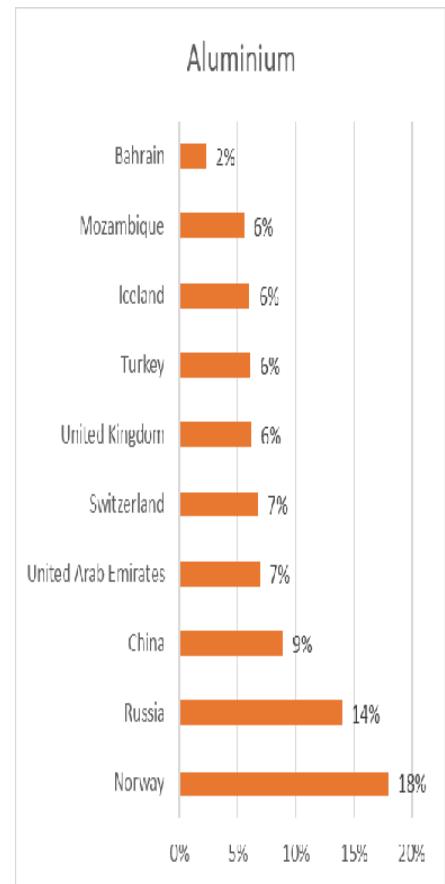
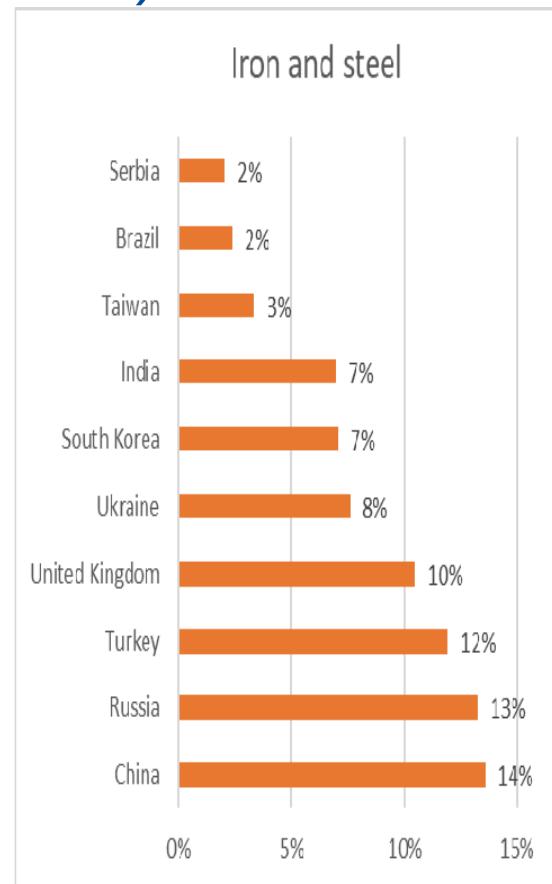
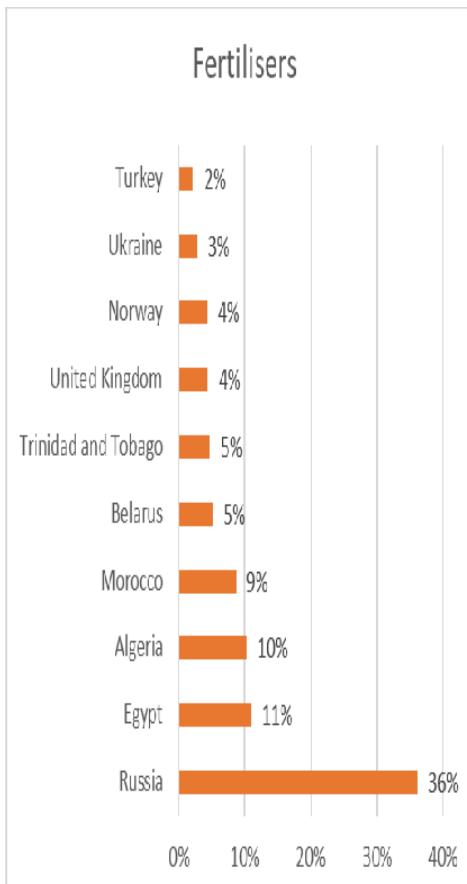
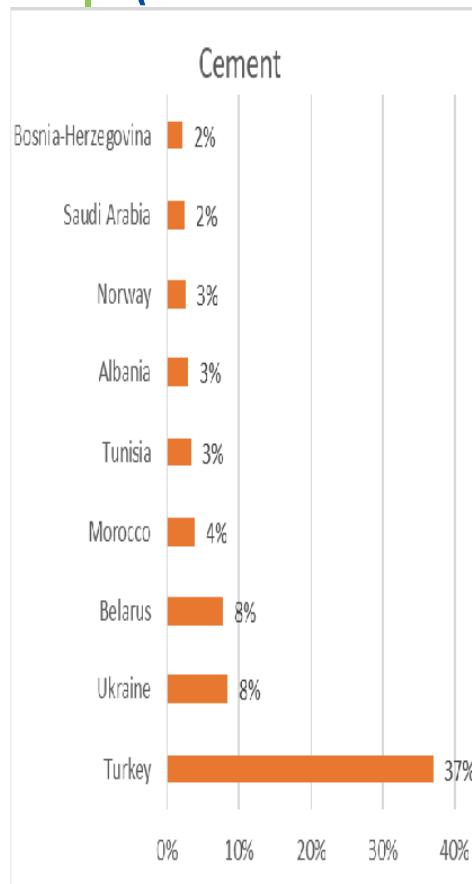
CBAM designed to be replicated by international partners.

# International impact

CBAM will incentivise decarbonisation in third countries under a five-tier system:

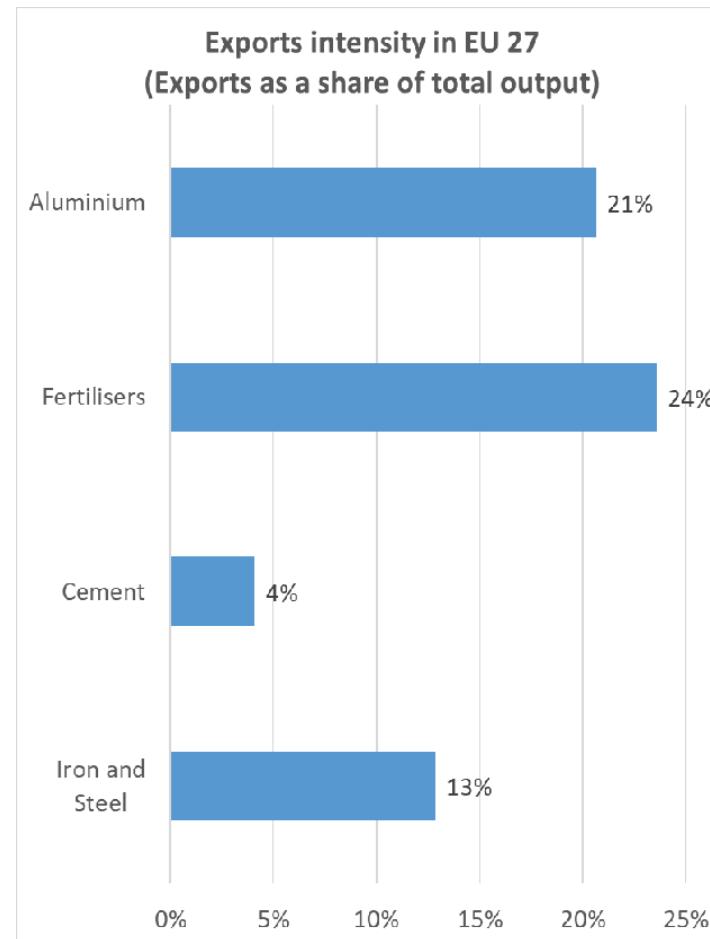
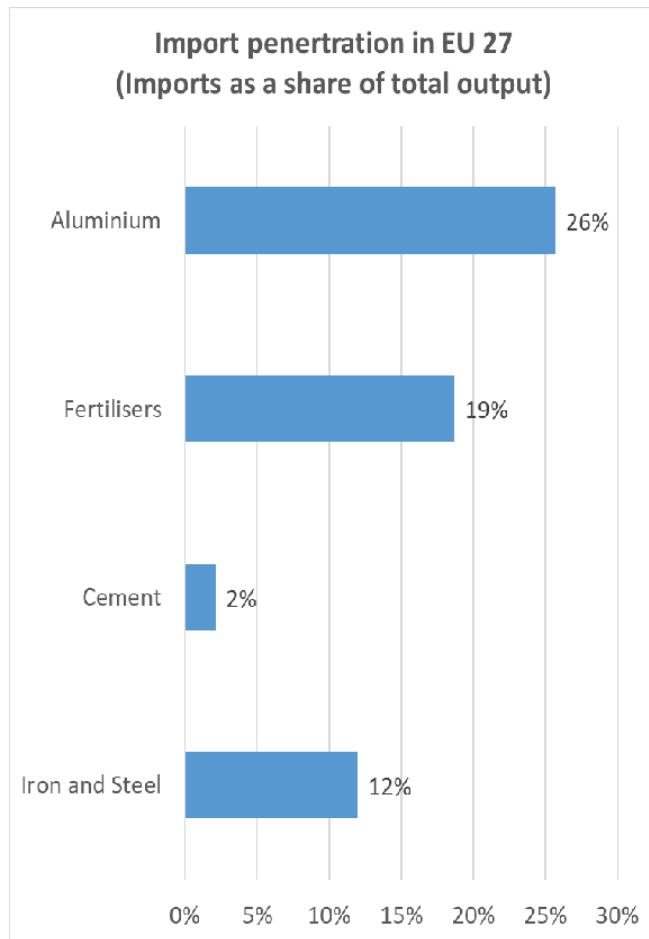
1. Actual Emissions methodology (Art.7 and Annex III)
2. Countries applying EU ETS or linked to it will be excluded (if price effectively charged)
3. Deduction of the carbon price paid in third countries from the adjustment on imported products
4. International agreements on how to take into account carbon price
5. Special rules on electricity for countries whose electricity market is “coupled” with the Union internal market for electricity

# Top 10 exporters in 4 of the sectors (except electricity) (share of total volume of imports)



\*Excluded as Norway is under the ETS

# Economic relevance of CBAM sectors in EU 27



# Enforcement: Penalties

- Case in point: “Fail to comply”
- Subjects: Authorised declarants or Any person introducing goods into the custom territory
- Procedural rights (notification, right of appeal)
- Amount of penalties as in ETS (100 E/tn plus inflation)
- Administrative and/or criminal sanctions according to national rules

# Enforcement: anti-circumvention

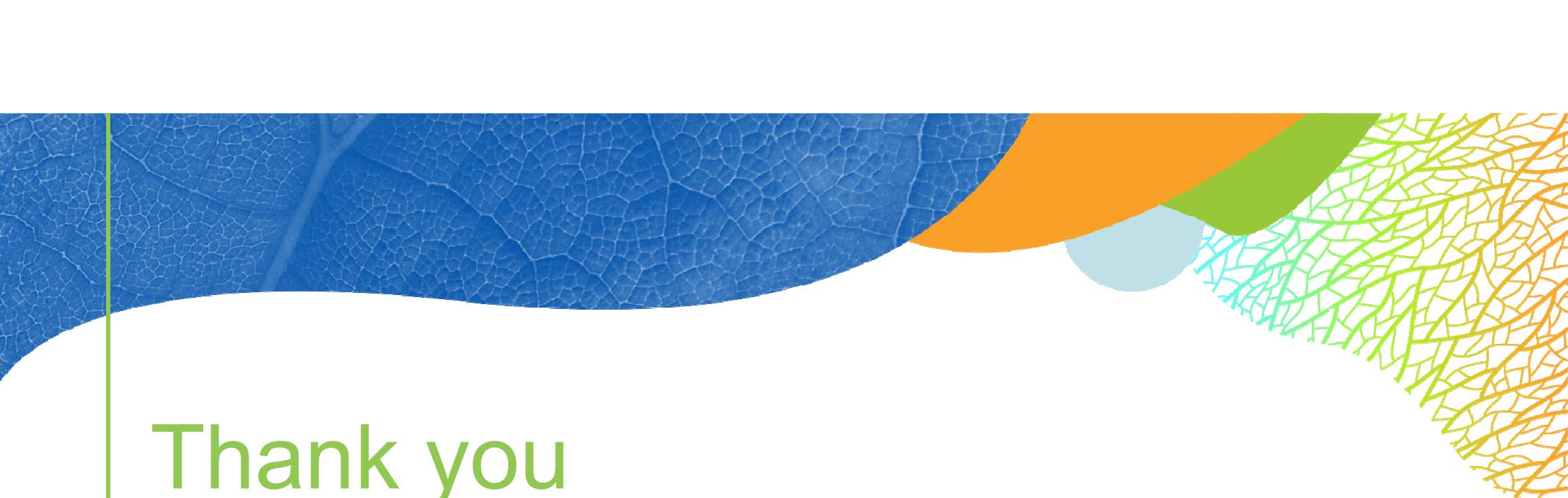
- Case in point: “change in pattern of trade”; “insufficient due cause”; “slightly modified products”
- Procedure: notification to Commission, monitoring, assessment, proposed delegated act
- Consequence: supplementing the scope of the Regulation

# Delegated acts

Countries out of scope	Adding countries to annex II Removing countries from annex II	Art 2
Accreditation of verifiers	Control and oversight of verifiers Withdrawal of accreditation Mutual Recognition Peer evaluation	Art 18
Anti Circumvention	Limited extension of the product scope to like products.	Art 27

# Implementing acts

Territorial application	Continental shelf and Exclusive Economic Zone	Art 2
Authorised declarant	Application	Art 5
	CBAM declaration and surrender of certificates	Art 6
	Details of emission calculation methodology	Art 7
	Verification of embedded emissions	Art 8
	Carbon price paid in the country of origin	Art 9
Certificates	Calculation and publication of certificates' price	Art 21
Border administration	Exchange of information	Art 25
Free allocation under ETS	Adjustment methodology calculation	Art 31
<b>Transitional period</b>	<b>Reporting obligation</b>	<b>Art 35</b>



# Thank you



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