

12 /03/2020

Milano

Dear Sirs,

Following more than ten years' experience as a company focusing on climate mitigation policies and consultancy, we strongly support that the measure shall be an extension of the EU ETS to imports. The reason for us to support a market-based approach is based on two main factors.

The first one is the price asymmetry that a tax would create if compared to a total alignment with the already existing EU ETS mechanism.

In order to be fair for all market parties, which would be:

1. The EU companies now subject to compliance under the EU ETS directive
2. Importers of the future targeted carbon measures (which might not themselves be subject to the EU ETS)
3. Foreign producers of goods subject to being targeted by the Carbon Border Adjustment policies,

The price of Carbon shall be completely aligned. Applying a tax next to the existing EU ETS would create 'de facto' an asymmetry in the cost of compliance and, therefore, an injustice. Since a Tax cannot be "recalibrated" every day (as, for instance, is happening for the market price of EU ETS allowances), the party that will be subject to just one of the two measures will always be in a favourable position if compared to the other (this is due to the difference between the amount of the Tax and the ever-changing price of EUAs). The result would be the erasure of the fundamental scope and effect of the proposed Carbon Border Adjustment mechanism by recreating an asymmetry.

The second point in support of an EU ETS extension is the democratic aspect of the market-based mechanism towards all parties. This approach is already in place in the California Carbon Market whereas importers of goods or electricity in the state (from other states, f.e. Nevada) need to buy the corresponding CO2 Credits as if the goods were produced in state or have the credits sent to them by the seller from out of state. All interested companies in the process have the choice of how to comply. Applied to the European case, the Importer could also become the ultimate responsible for compliance based on the level of their imports, while having the ability to procure the EU Credits (EUAs) for the products (and charge the producer accordingly if it deems it

necessary) or leave the procurement of those credits to the producer without the need to anticipate the cost on his behalf (therefore sending both the goods and the corresponding credits to the importer).

A third point is regarding COMPETITION and CARBON LEAKAGE. Implementing a CBA (Carbon Border Adjustment) with the cancelation of free allocation can be extremely useful only if the CBA applies to all semi-finished goods. The risk is that a strong unbalance in competitiveness will happen, as many EU-ETS subject products could be shipped outside EU (free of the EU-ETS costs) and being reimported after transformation. This will strongly hit the industrial base of the EU with high added value. We are talking about ceramics, paper, steel, ammonia and other important industrial production field.

Sincerely

Sergio Carloni