



CARBON BORDER ADJUSTMENT MECHANISM

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

“Keeping pace with the EU’s new trade policy and rules”- 30 August 2022

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.

Why do we need a CBAM?

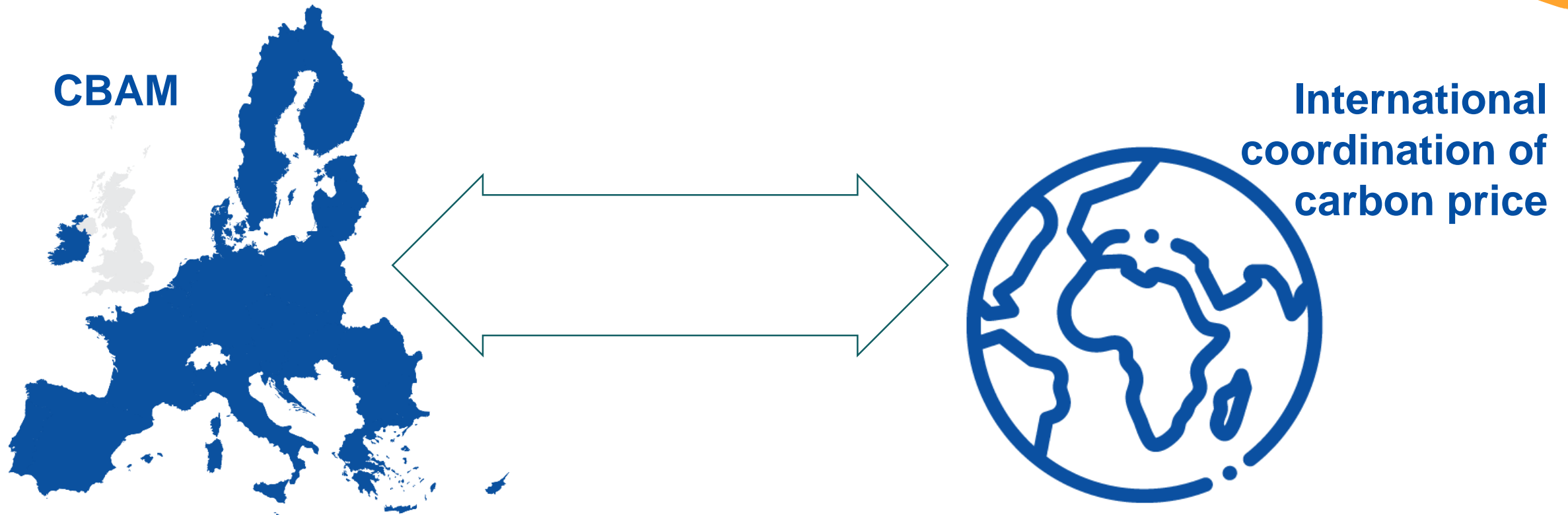
As the EU raises its climate ambition and differences in levels of ambition worldwide persist....

.. there is an increased risk of carbon leakage

Hence the EU needs a CBAM



CBAM / international coordination

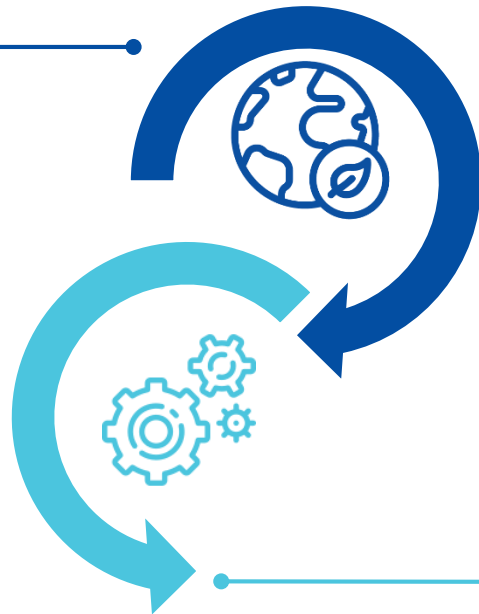


... climate action is urgent, so we need to act at all levels now

... starting with CBAM does not preclude joint work on international coordination

So what is the aim of the CBAM?

Prevent carbon leakage to ensure effectiveness of EU climate policy



Change behaviours

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

CBAM: Key elements of design



CBAM: Basic Concept

- **Climate objective**
 - The sole objective of CBAM is to reduce CO2 emissions in the EU and globally
- **Regulatory nature**
 - CBAM applies a regulatory regime on imports equivalent to the ETS
- **Replicates as much as possible on the EU ETS**
 - **Carbon content of goods**
 - **verified emissions**

Carbon price

- **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.
- **No 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 deducted for the EU importer.
- **Gradual phase-in**, to allow businesses to adapt.

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 replaces the free allowances under the EU ETS and is phased in gradually as the free allowances are phased out**

CBAM: Gradual phase-in

Based on the purchase of **certificates** (€ / tonne of CO2 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

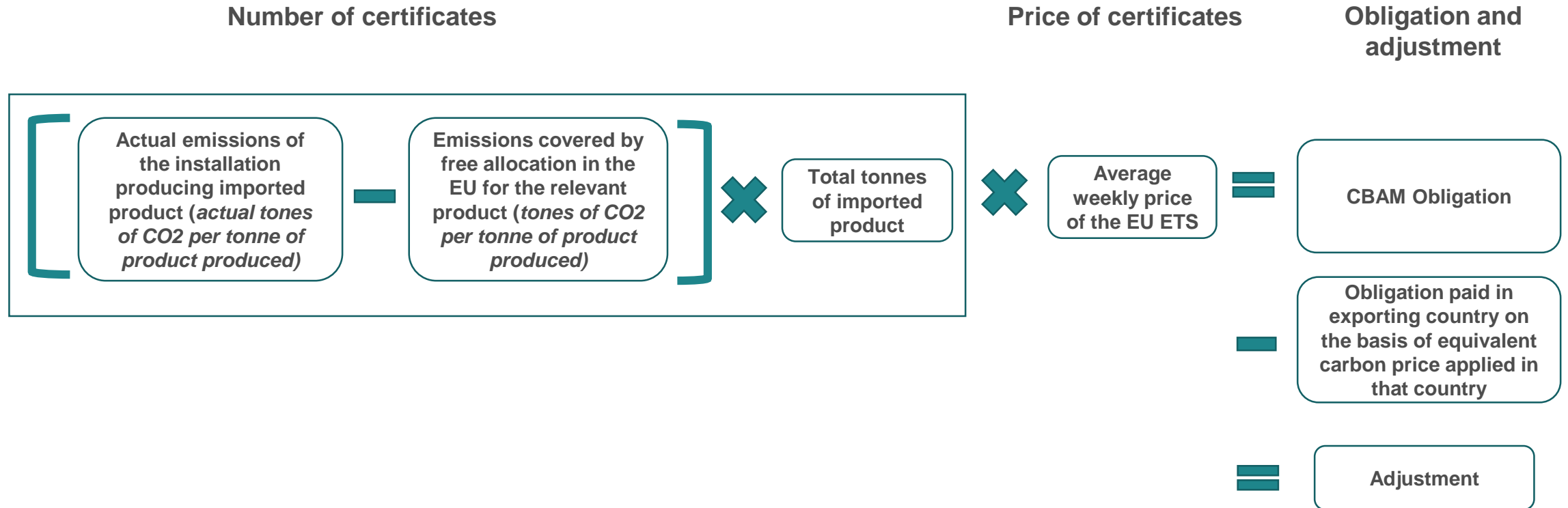
Collection of information, not money. Carbon price info will be actual emissions for each sector.

After transitional phase 2026 onwards

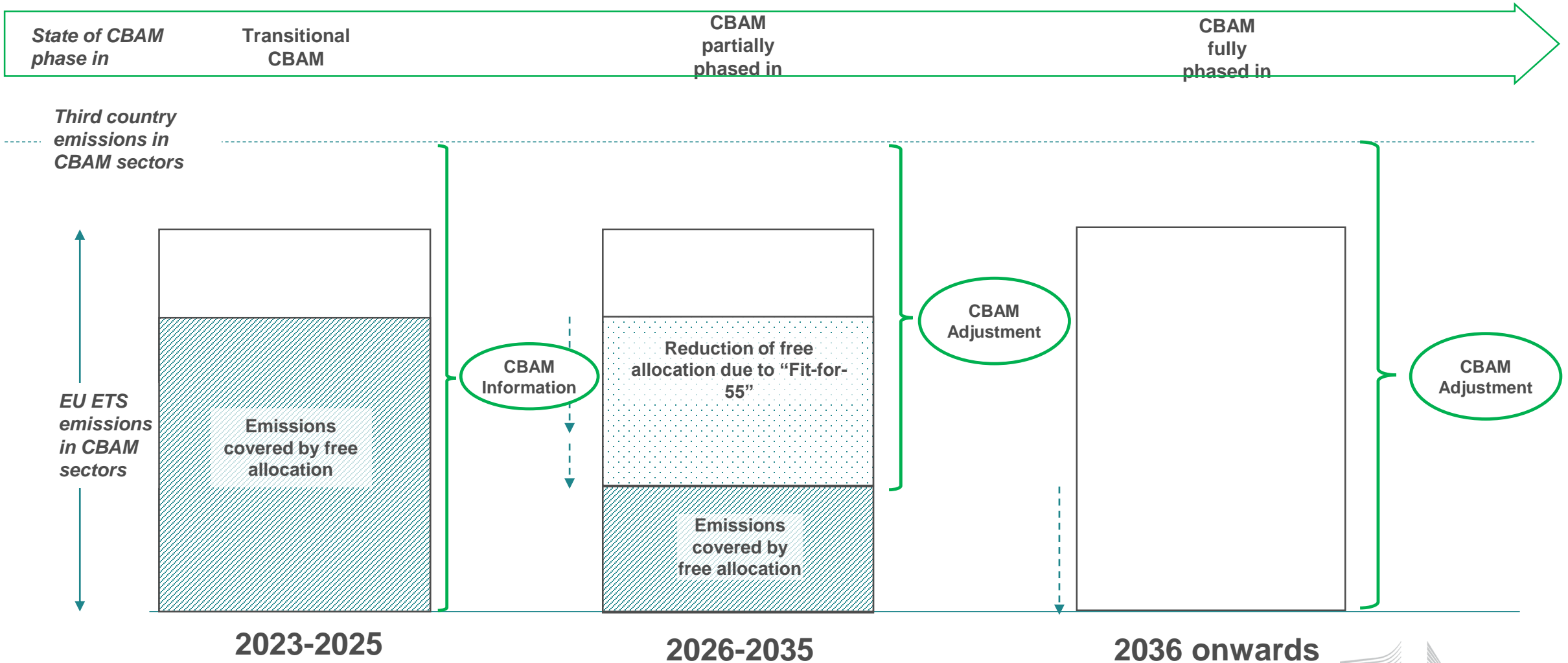
Importers must declare amount of embedded emissions in the total goods they imported. Rules for calculating embedded emissions are clearly spelled out.



General example of adjustment



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



An internationally open mechanism

CBAM is open to and incentivises decarbonisation efforts in third countries and favours international coordination thanks to a five-tier system:

1. Actual Emissions methodology
2. Countries applying EU ETS or linked to it will be excluded (eg Norway: linkage to ETS)
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

CBAM: Sectors

- In the **first phase**:



CEMENT



IRON & STEEL



ALUMINIUM



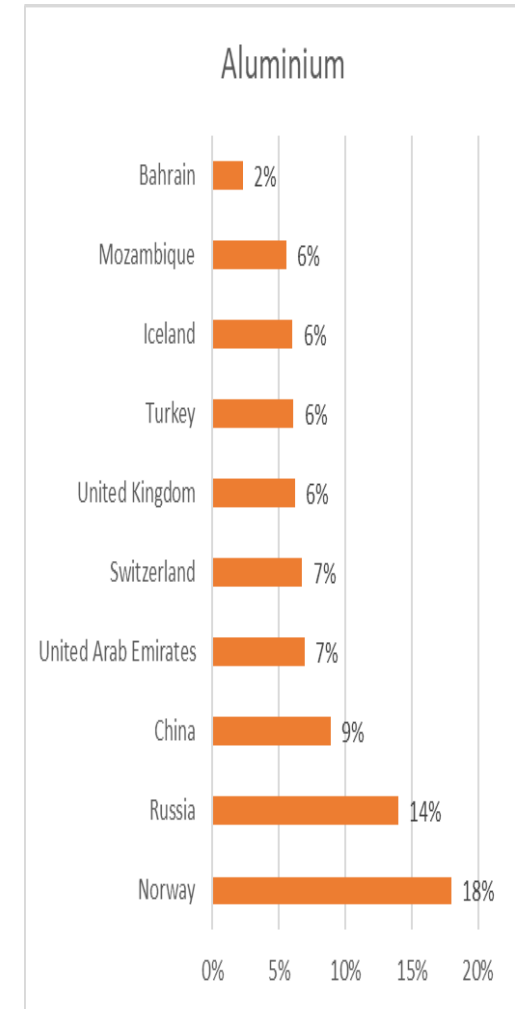
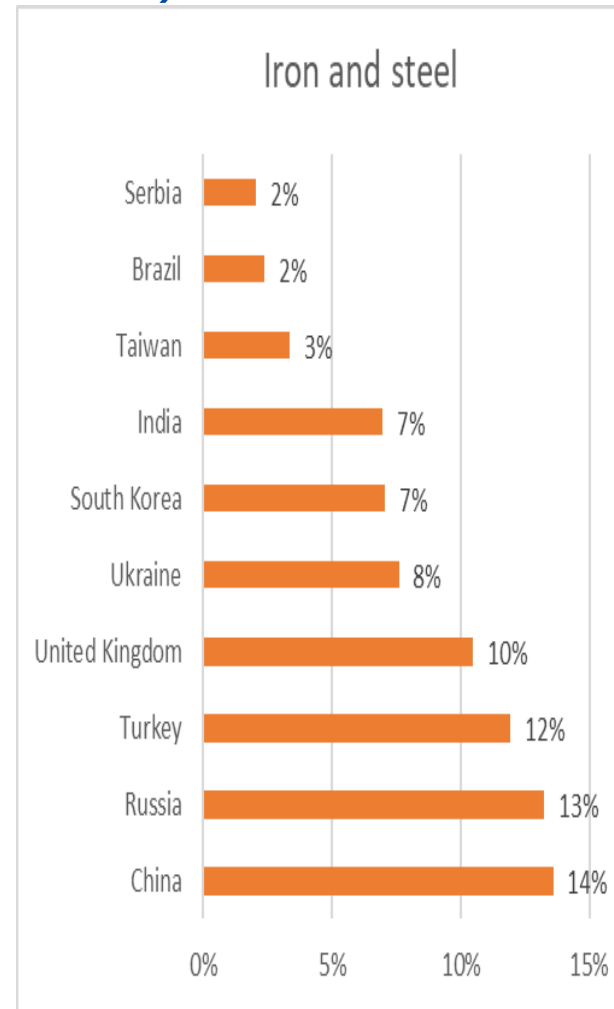
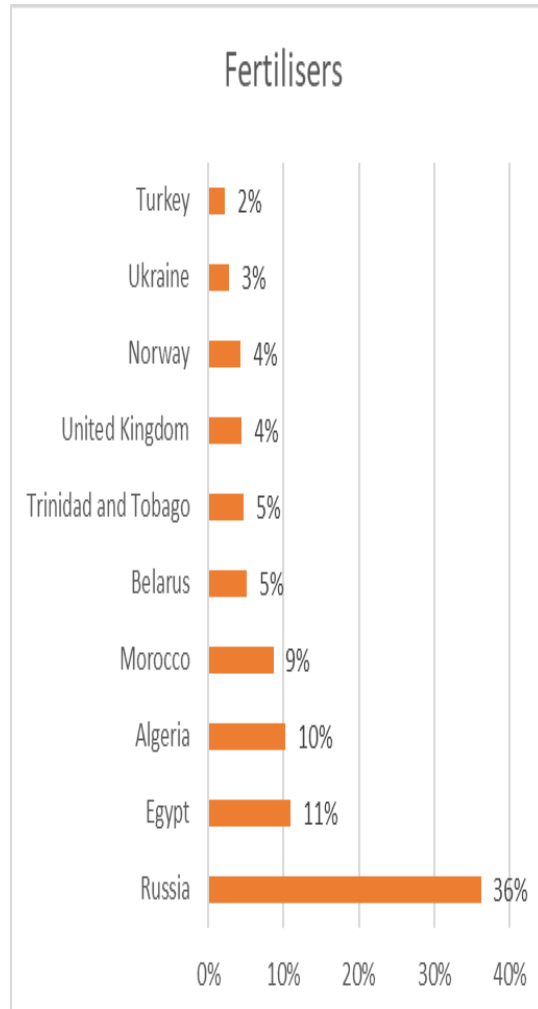
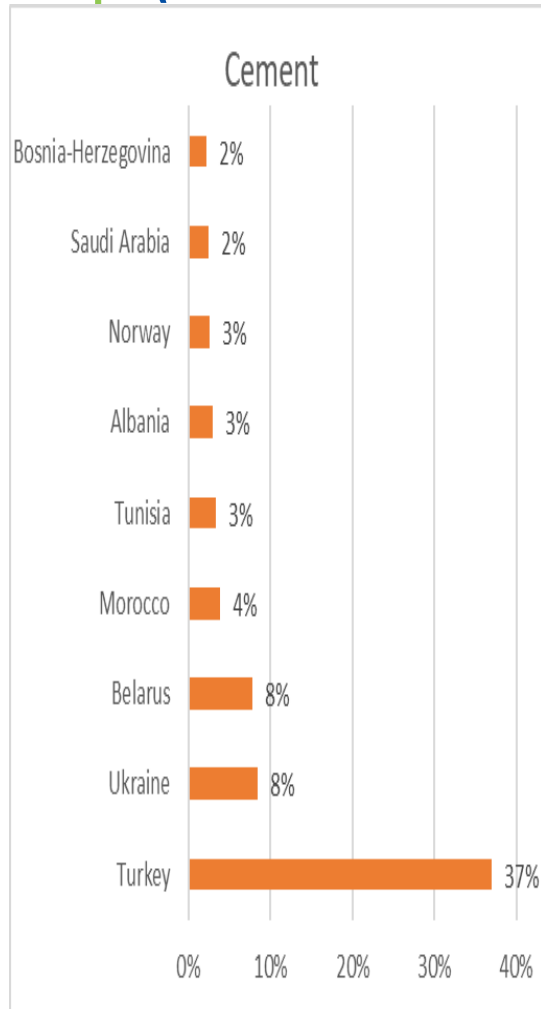
FERTILISER



ELECTRICITY

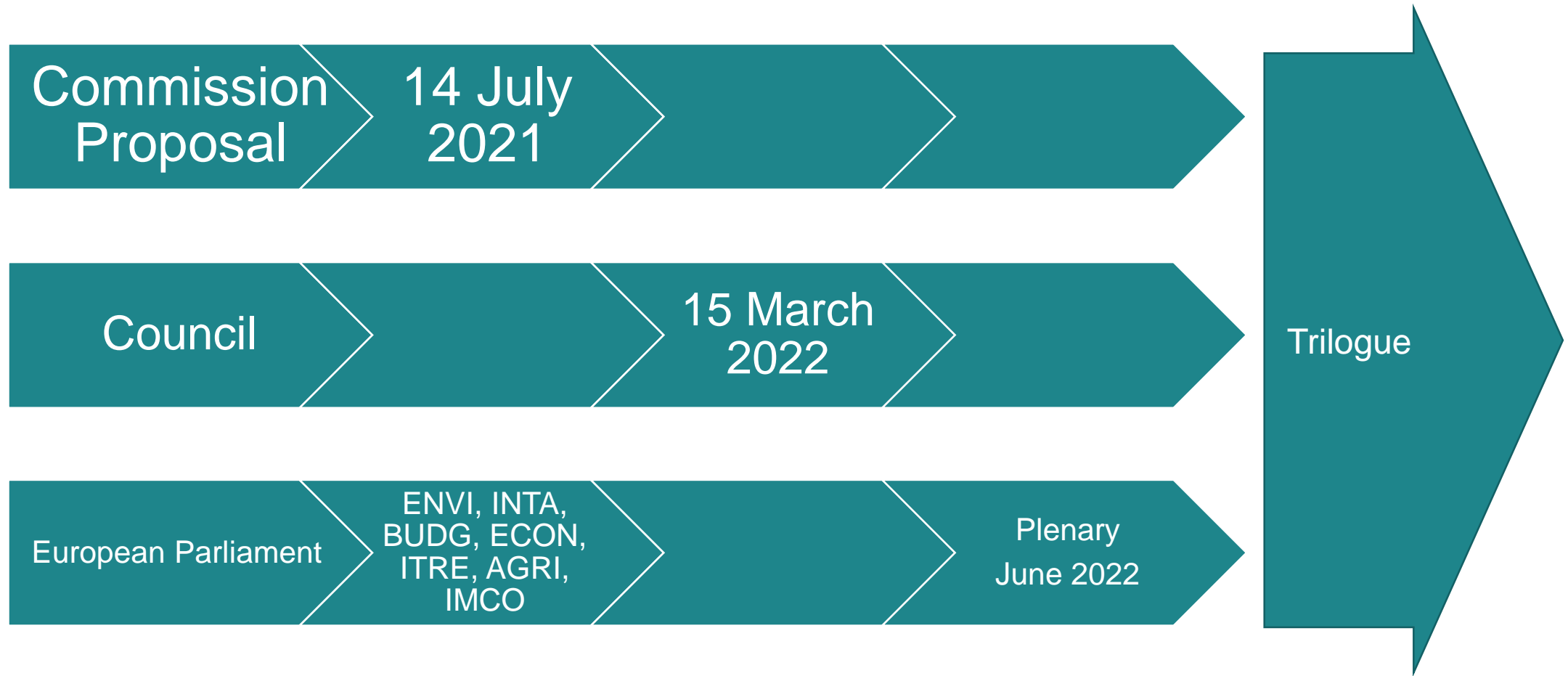
- **Selected on basis of 3 criteria:**
 - ✓ *High risk of carbon leakage (High carbon emissions; High level of trade)*
 - ✓ *Covering more than >45% of CO2 emissions of ETS sectors*
 - ✓ *Practical feasibility*
- In a **second stage**, extended to other sectors and indirect emissions
- 14. Compliant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

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



*Excluded as Norway is under the ETS

Legislative process



Thank you

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