

Carbon Border Adjustment Mechanism

2nd Coordination Meeting of the Energy Community Coalbased Electricity Generation Companies

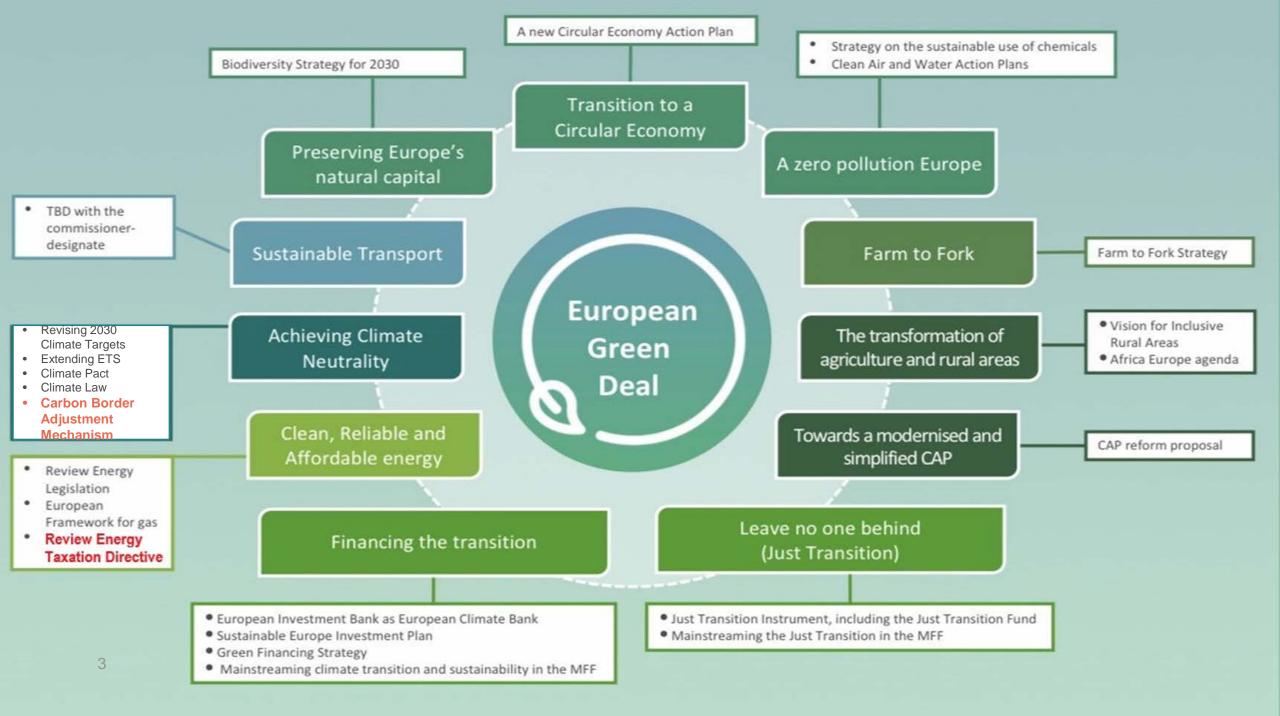
4 February 2021



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.





Context

EU increased its climate ambitions

Need to incentivise energy intensive industries to invest in low carbon technologies

Risk of carbon leakage is increasing

Consequences of effectiveness of EU's policies

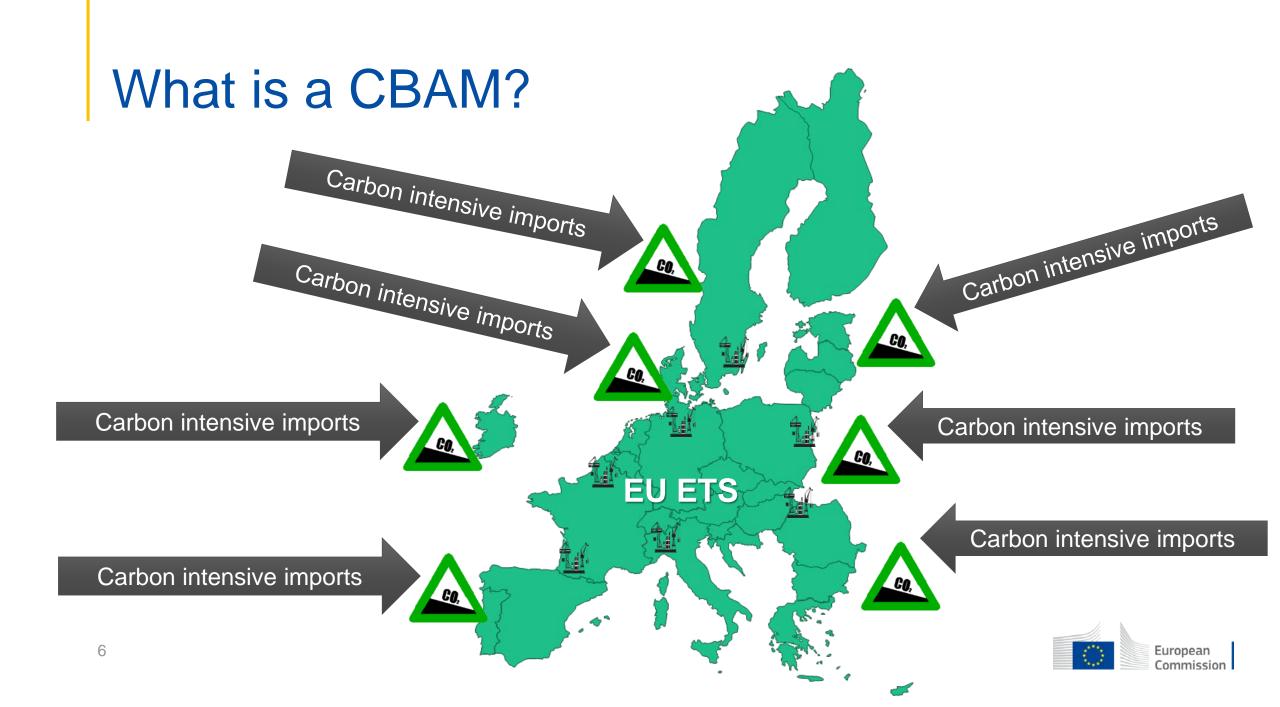
Green Recovery





"Should differences in levels of ambition worldwide persist, as the EU increases its climate ambition, the Commission will propose a carbon border adjustment mechanism, for selected sectors, to reduce the risk of carbon leakage."





Key elements of Design

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Ensuring that the price of imports reflects more accurately their **carbon content** **Compliance with WTO**, in particular the MFN and National Treatment Articles of GATT

Alternative to the measures that address the risk of carbon leakage in the EU's Emissions Trading System (ETS).

Looking at carbon intensive sectors



Options for a CBAM

- New excise duty/carbon tax on carbon intensive products which would include a CBAM;
- 2. Border tax/import duty;
- 3. Border tax/import duty with export refund;
- 4. Carbon added tax;
- 5. Surrender of EU ETS allowances upon importation;
- 6. Surrender of "notional" EU allowances upon importation.



Timeline

•	22 July – 28 Octobe 2020 Open Public Consu		ng 2021	
11 December 2020	609 contributionCollect opinions	s Gre on Eve	en Taxation	2023
European Green Deal adopted	opportunities and challenges of CE		Consult with stakeholders	Implementation
4 March – 1 April 2	020	Ongoing	June	2021
Inception Impact Assessment • 224 Contribution • >140 in support		 Impact Assessment Studies Modelling exercises Inter-service consultations 	Com Adop	mission otion



Elements contributing to the Impact Assessment

Studies on Carbon Leakage

- 2030 Revised climate ambition impact assessment
- Carbon Leakage in ETS
 Phase 3 and 4
- Alternatives to address carbon leakage – DG CLIMA

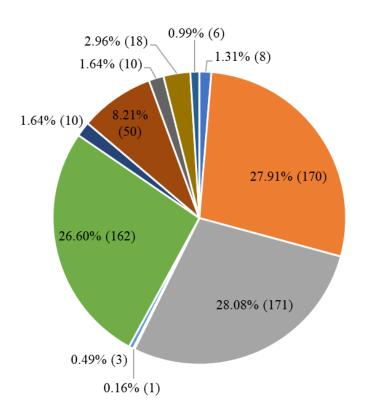
Studies on Carbon Border Adjustment

- Design and effects
- Modelling JRC & ECFIN
- WTO DG TRADE
- OPC results analysis
- Effect of a CBAM on energy markets DG ENER



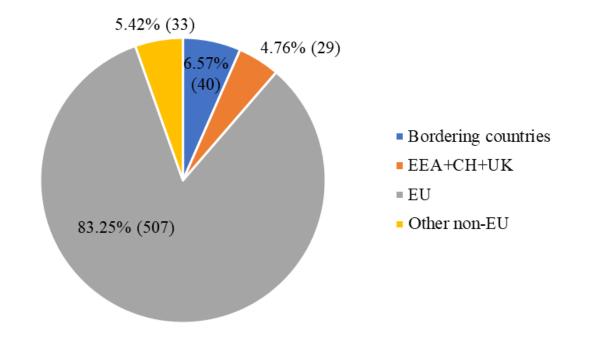
OPC – **Contributions**

Stakeholders



- Academic/research institution
- Business association
- Company/business organisation
- Consumer organisation
- Environmental organisation
- EU citizen
- Non-EU citizen
- Non-governmental organisation (NGO)
- Other
- Public authority
- Trade union

Geographical coverage





What the stakeholders say - justification

- Most of the respondents to the OPC believe that the risk of carbon leakage is expected to increase as a result of the EU's enhanced climate ambition
- On average, consulted stakeholders agree that a CBAM:
 - Can be justified by differences of ambition between EU and third countries to fight against climate change
 - Can contribute to both EU and global climate efforts.
- Similarly most respondents do not believe that CBAM would impose unnecessary burdens on EU industry
- Stakeholders in bordering countries represent the only cluster that neither agrees, nor disagrees on the role an EU CBAM can play to level differences in ambition between the EU and third countries and on the contribution of a CBAM to fight climate change



In view of EU's enhanced climate ambition the risk of carbon leakage is likely

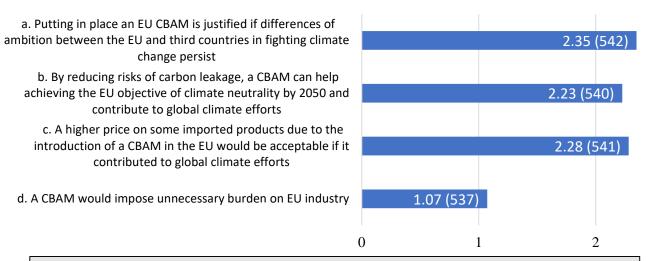


stakeholders)

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Level of agreement with the justification of CBAM

associations



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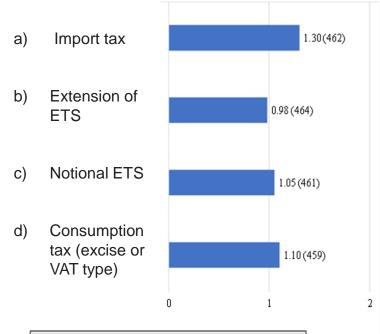
What the stakeholders say - objectives

- Stakeholders believe that carbon leakage is already a reality and, to some extent, CBAM can address this, foster consumption of the less-carbon intensive product in the EU and stimulate the deployment of low-carbon technologies and ambitious climate policies in third countries
- Mixed opinions on the effectiveness of current measures to limit carbon leakage and on the ability of other regulatory measures to effectively reduce GHG emissions.
- On average, stakeholders somewhat disagree that the current measures under the EU ETS can address e. carbon leakage in case of enhanced climate ambition for the EU
- Stakeholders seem to attach particular importance to three additional objectives of the CBAM (on top of reducing the risk of carbon leakage): i) enabling policies reducing carbon emissions in the EU; ii) fostering the reduction of greenhouse gas emissions on a global scale; and iii) ensuring a 'level playing field'₁ for all producers bearing 'carbon-driven' costs

a. Carbon leakage is already a reality	2.28 (535)		
 b. Current measures to address the risk of carbon leakage under the EU Emissions Trading System and State Aid Rules, such as ree allocation of allowances and indirect cost compensation are effective in limiting the current risk of carbon leakage c. Current measures to address the risk of carbon leakage under e EU Emissions Trading System are sufficient in limiting the risk of carbon leakage even in view of the EU's enhanced climate ambition 	0.91 (525)	1.67 (519)	
d. A CBAM could be effective in addressing the risk of carbon leakage		2.09 (535))
A CBAM can be effective in encouraging the deployment of less arbon intensive technologies and ambitious climate policies in partner countries		2.13 (529	9)
f. A CBAM can lead to a change in consumption patterns in the EU, by making available the choice of less carbon intensive products		2.01 (527)	
g. Reducing greenhouse gas emissions can be better achieved through regulatory means such as performance standards for products placed on the EU market		1.60 (512)	
	0 1	1 2	2

OPC – Design options and coverage

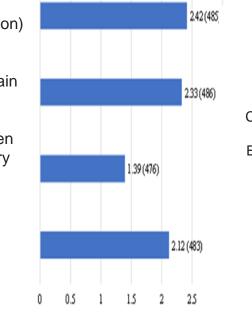
Design Options



Legend: 0 = Not relevant 1 = Somewhat relevant 2 = Highly relevant

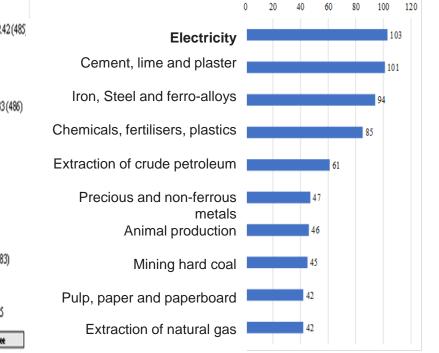
Scope of Emissions

- a) Direct and Indirect emissions (production)
- b) Complete Value chain
- c) Differentiate between finished/intermediary and basic products
- d) Cover international transport of goods



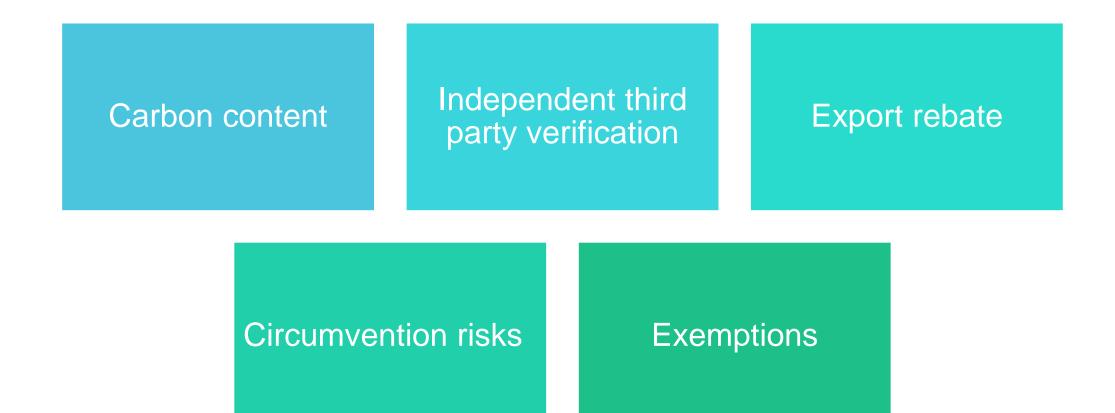
Legend: 0 = Strongly disagree 1 = Somewhat disagree 1 5 = Neither agree or disagree 2 = Somewhat agree 3 = Strongly agree

Top 10 Sectors





OPC – Implementation issues





OPC – **Expected** Impacts

Positive

- Encourage consumption of less carbon intensive products
- Innovation/promotion of clean technologies
- Competitiveness of sectors covered
- Investment in EU
- Improve effectiveness climate change policies
- Reduce carbon emission globally
- Promote adoption of ambitious climate policies in third countries

Negative

- Increased costs for EU businesses in downstream sectors
- Increase the price of consumer products including those related to basic needs
- Lead to job losses in downstream sectors (by increasing the cost of their inputs)
- Generate potential negative effects on the living standards of the poorer segments of the population
- Increase administrative burdens for importers, exporters and public administrations in the EU



OPC – Key Challenges

- Economic and environmental impacts
- Technical design (eg. Calculation of carbon content, default values)
- Balance the burden between EU and non-EU companies
- Ensuring robust data collection and verification process
- Retaliation measures
- Implemented in a way to strengthen global climate ambition
- Ensure competitiveness of EU industry on global market
- Contributing to decarbonisation of strategic sectors through innovation and investment
- Definition of sectoral scope of CBAM
- Alignment with EU ETS



Thank you!

