



Carbon Border Adjustment Mechanism

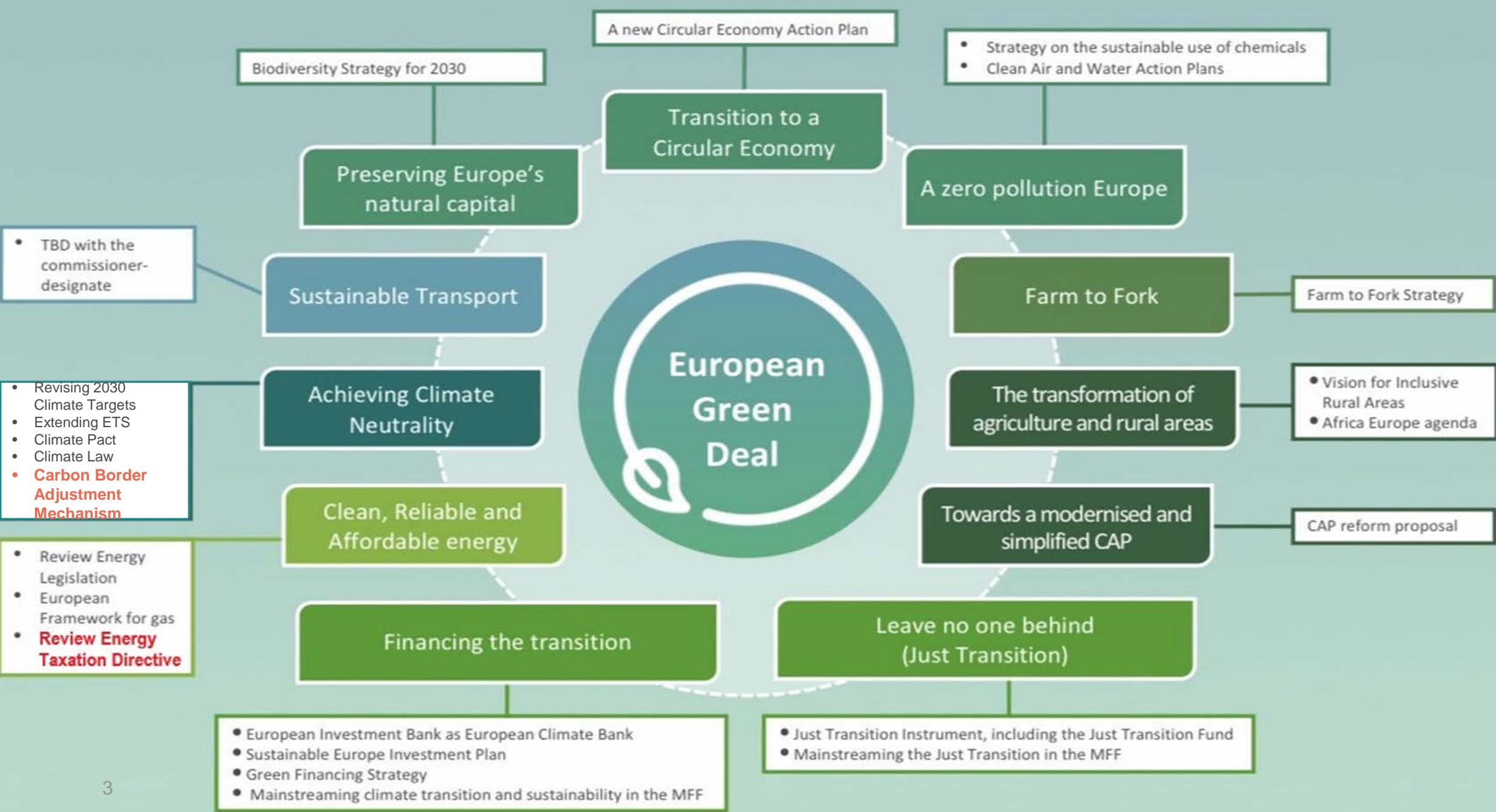
2nd Coordination Meeting of the Energy Community Coal-
based Electricity Generation Companies

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

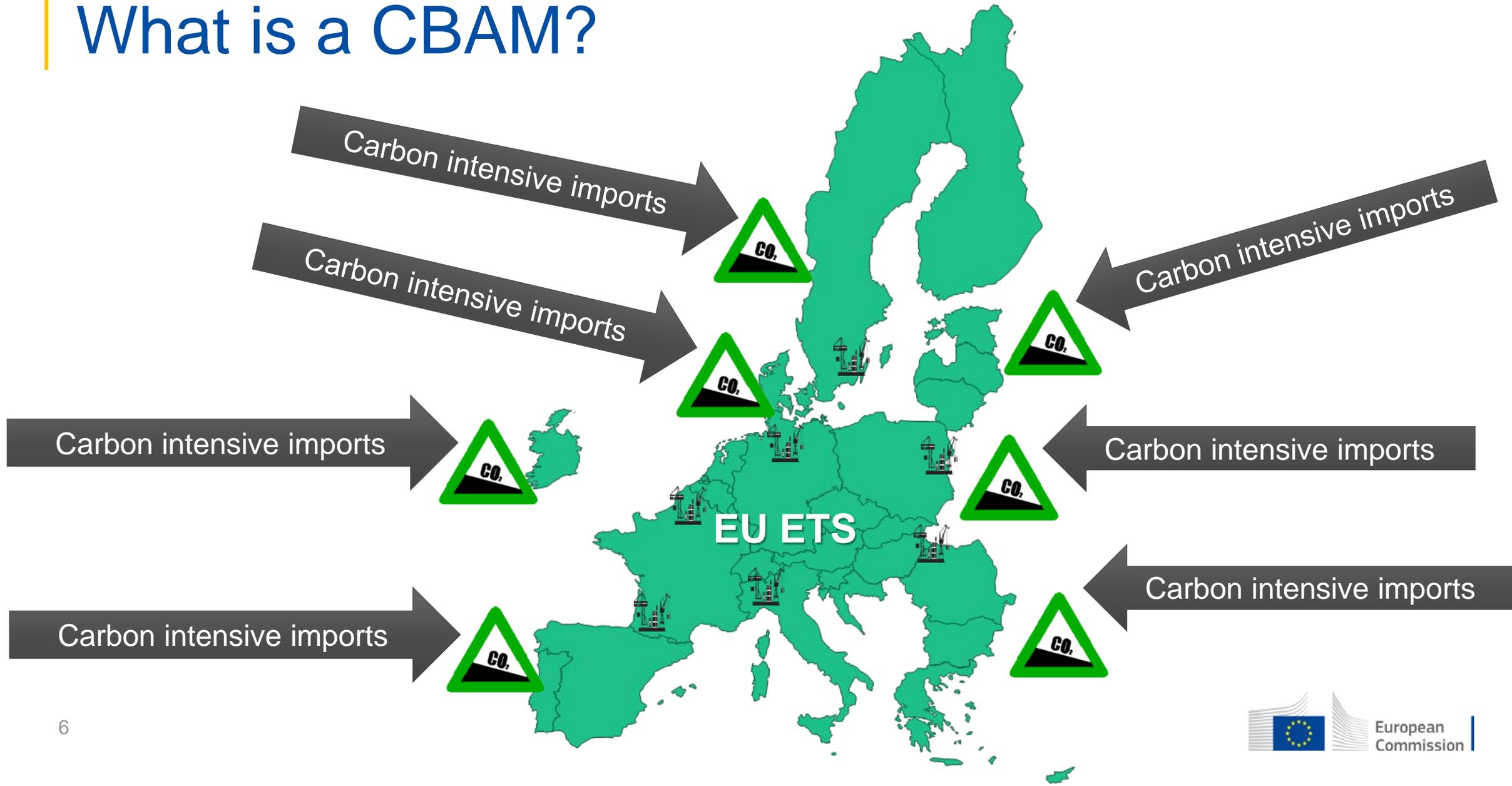
Consequences of effectiveness of EU's policies

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.”

What is a CBAM?

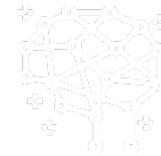


Key elements of Design

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



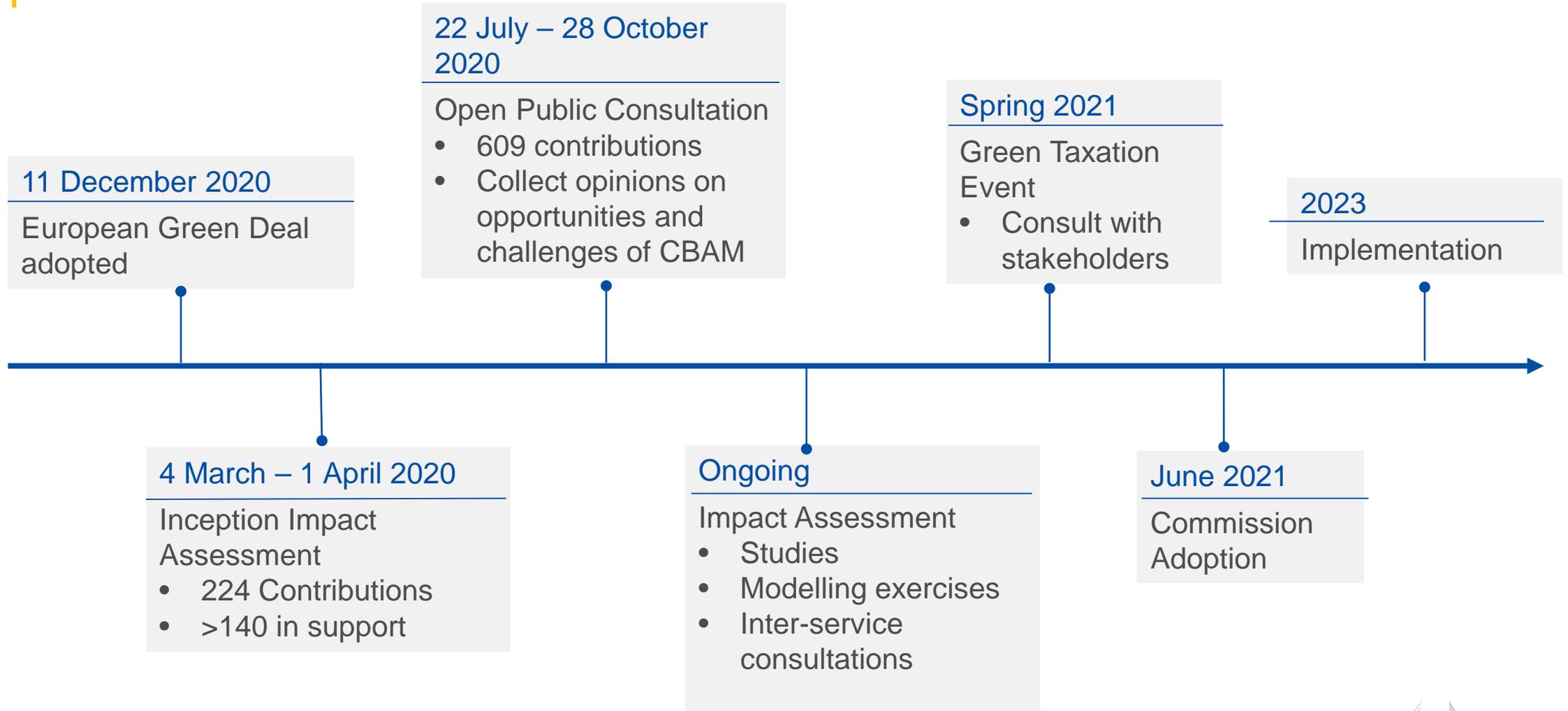
Alternative to the measures that address the risk of carbon leakage in the EU's **Emissions Trading System (ETS)**.

Looking at **carbon intensive sectors**

Options for a CBAM

1. 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



Elements contributing to the Impact Assessment

Studies on Carbon Leakage

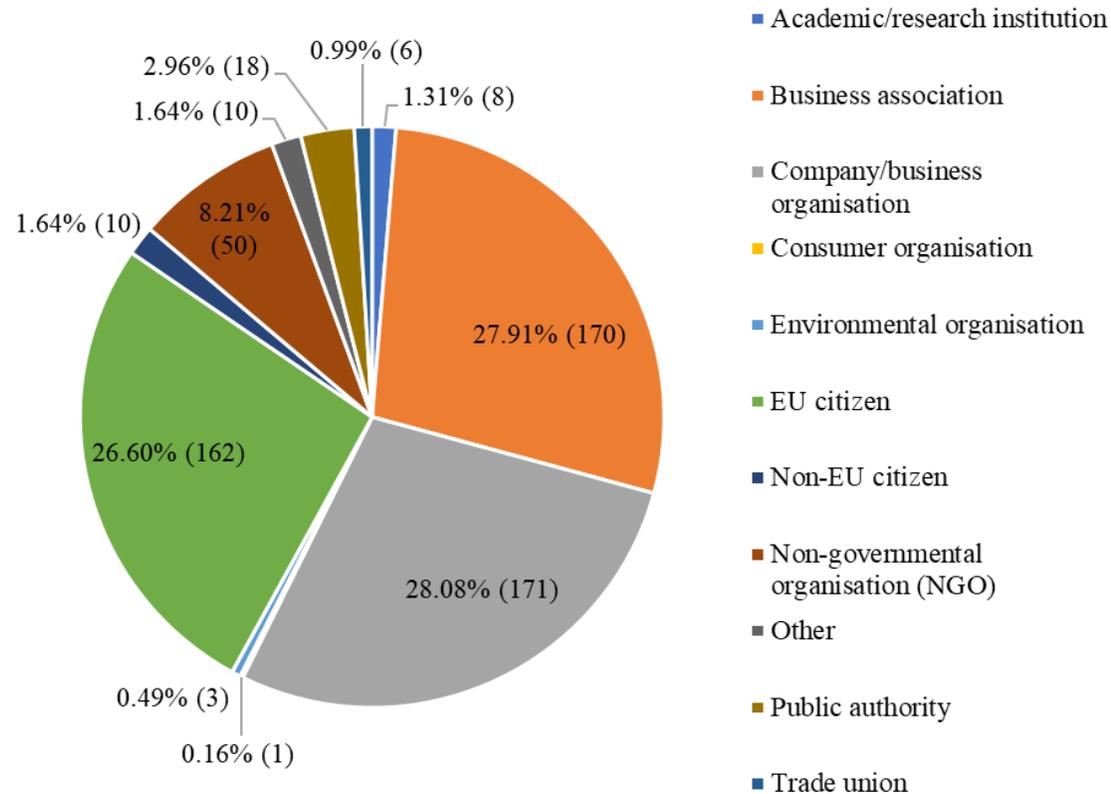
- 2030 Revised climate ambition impact assessment
- Carbon Leakage in ETS Phase 3 and 4
- Alternatives to address carbon leakage – DG CLIMA

Studies on Carbon Border Adjustment

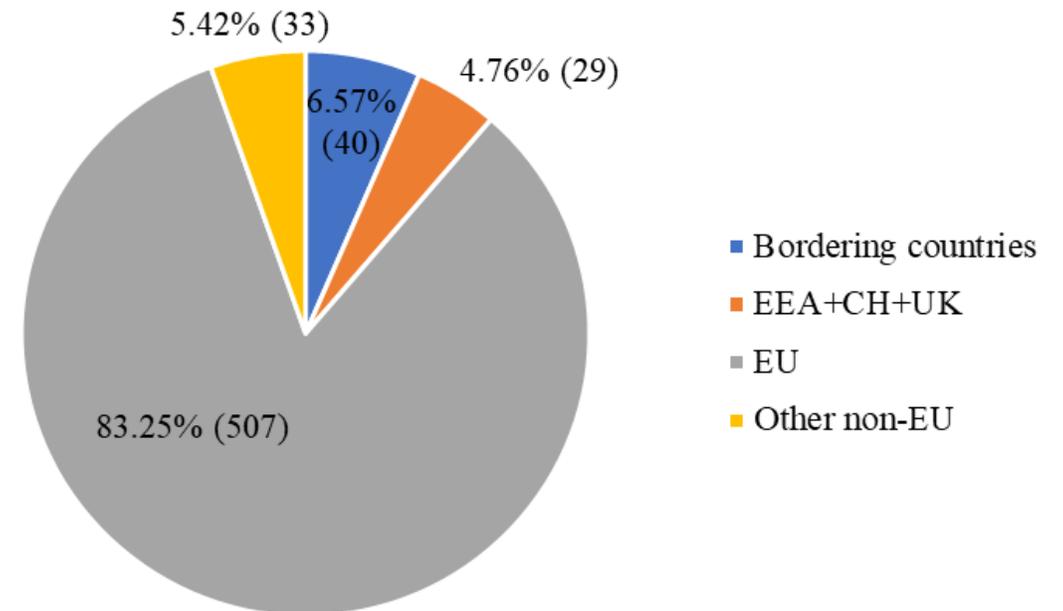
- Design and effects
- Modelling – JRC & ECFIN
- WTO – DG TRADE
- OPC results analysis
- Effect of a CBAM on energy markets – DG ENER

OPC – Contributions

Stakeholders



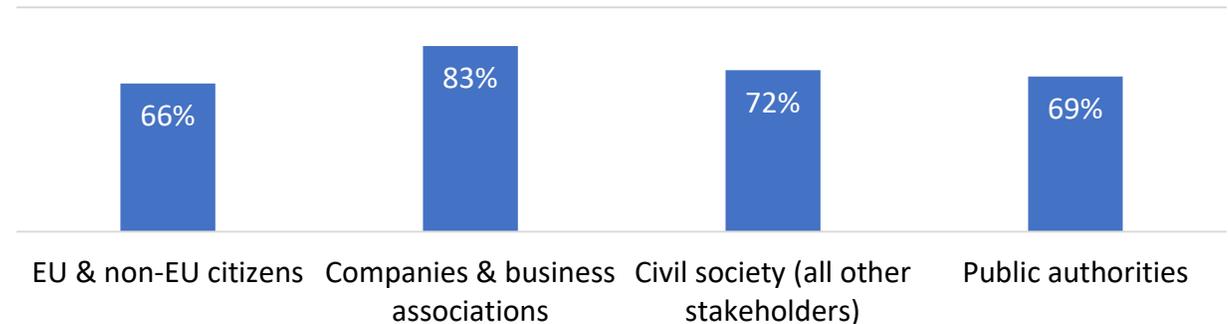
Geographical coverage



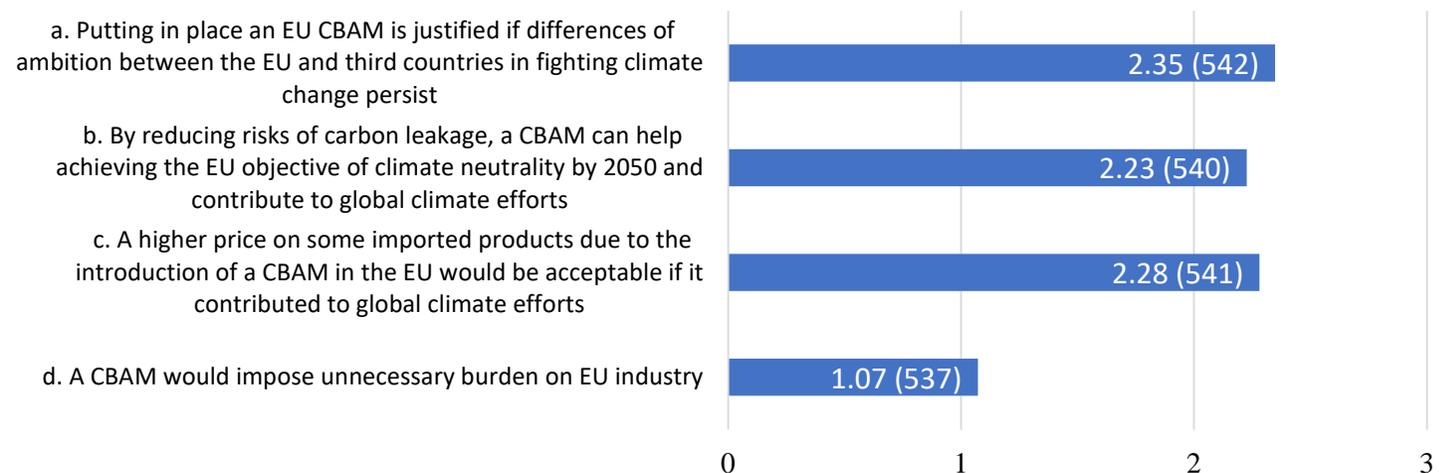
What the stakeholders say - justification

- 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 to increase



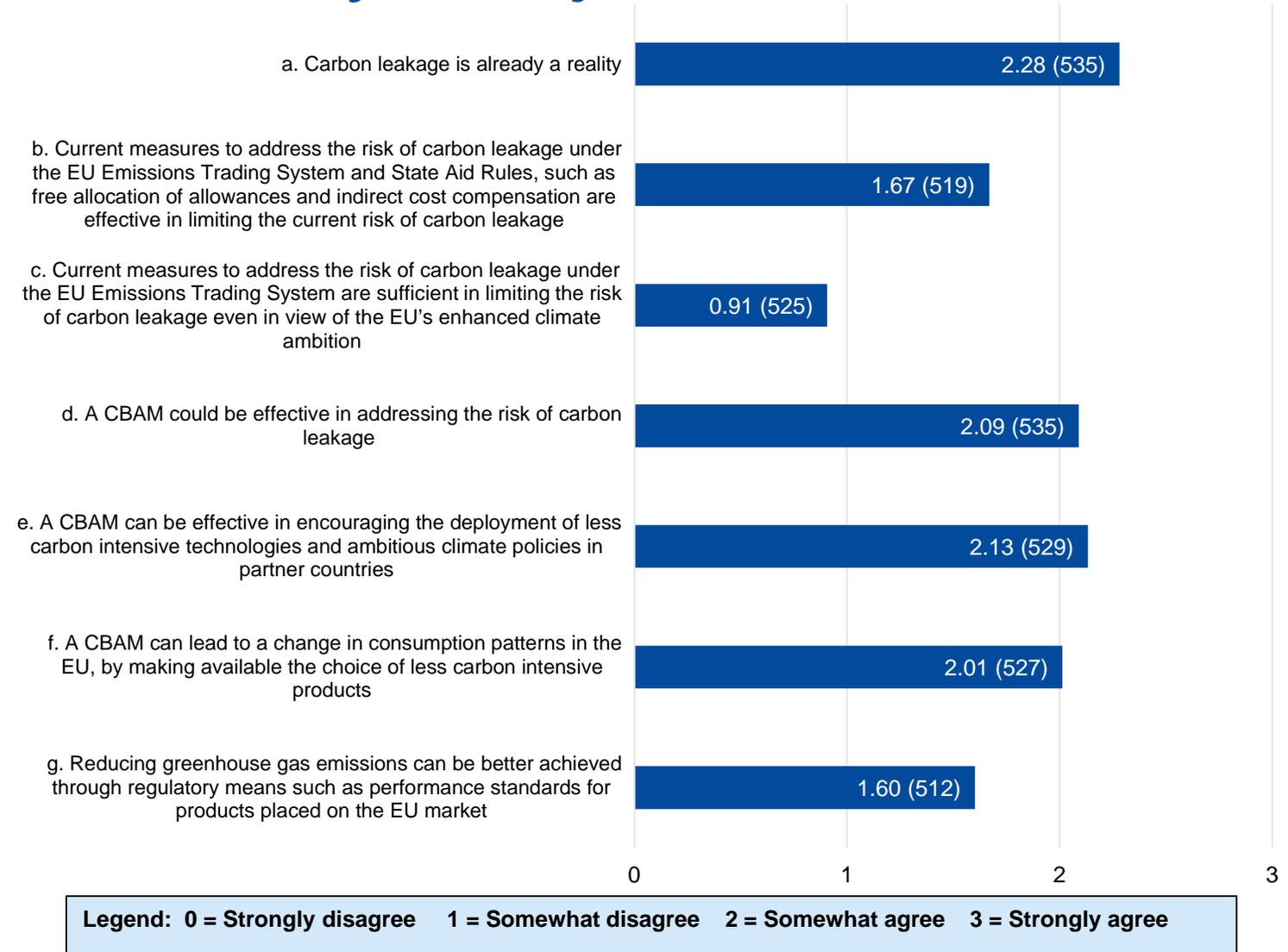
Level of agreement with the justification of CBAM



Legend: 0 = Strongly disagree 1 = Somewhat disagree 2 = Somewhat agree 3 = Strongly

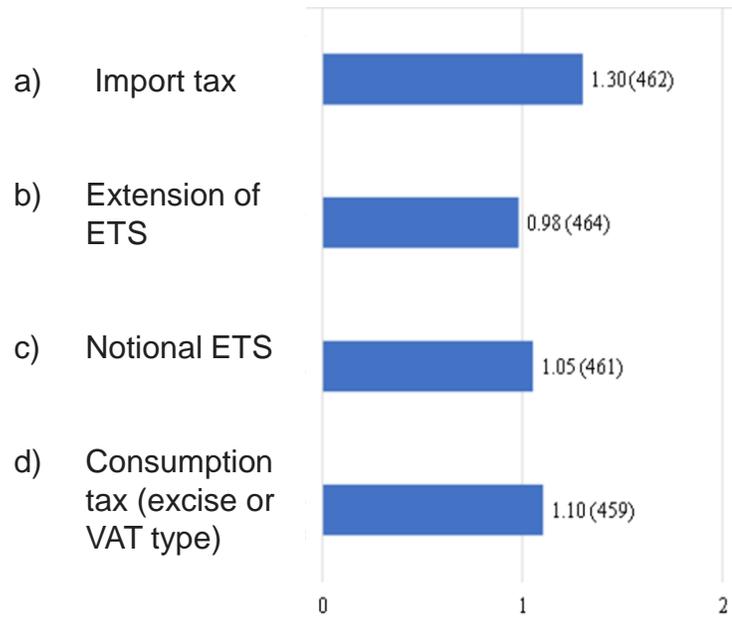
What the stakeholders say - objectives

- 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 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' for all producers bearing 'carbon-driven' costs



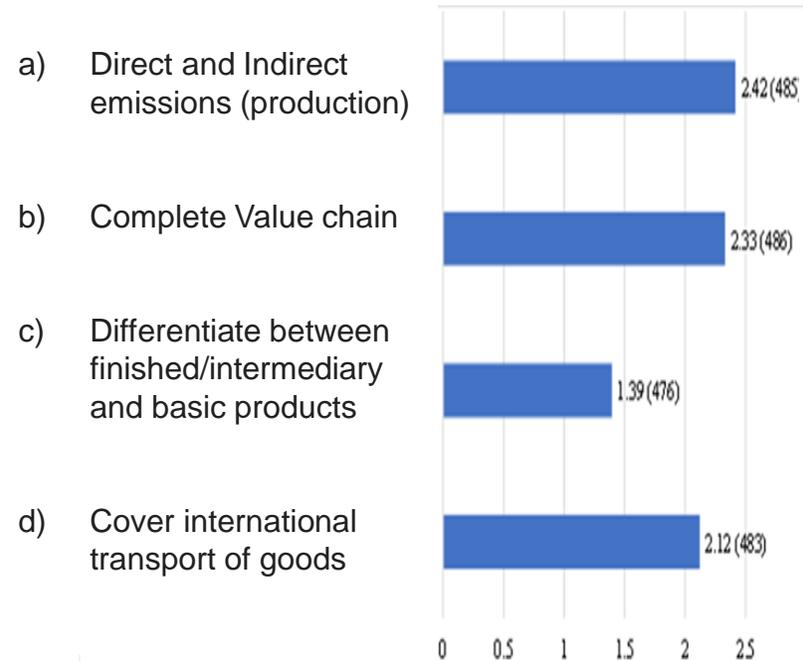
OPC – Design options and coverage

Design Options



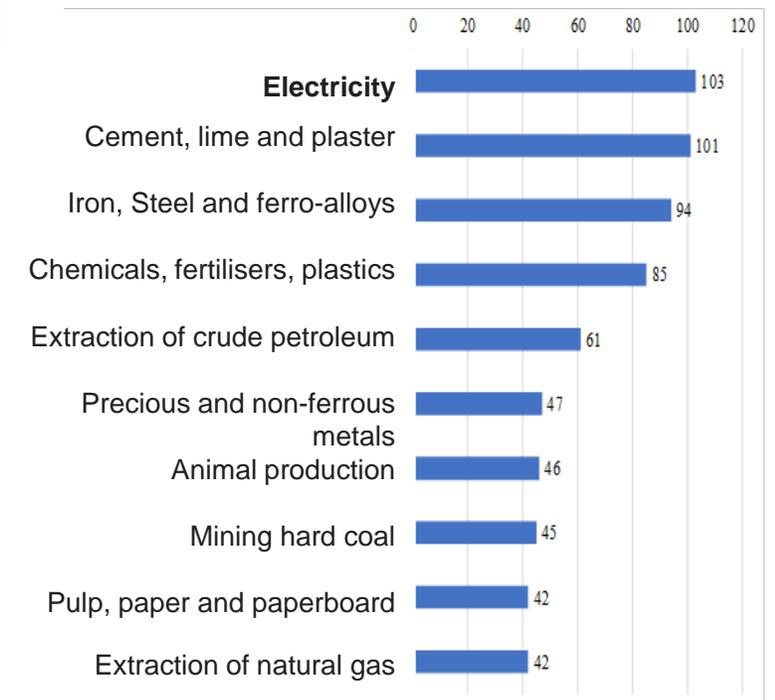
Legend: 0 = Not relevant 1 = Somewhat relevant 2 = Highly relevant

Scope of Emissions



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

Carbon content

Independent third party verification

Export rebate

Circumvention risks

Exemptions

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
- Avoid job losses

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!