CARBON BORDER ADJUSTMENT MECHANISM

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

Technical Briefing, 14 July 2021
CBAM: Objectives

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

Generate revenues
Possible EU Own Resource
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

• **EU businesses will need to pay a carbon adjustment for imports of certain goods**, corresponding to the price they would have paid if the goods had been produced under the EU’s carbon pricing rules (ETS).

• **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.

• The CBAM charge will be adjusted to reflect the level of EU ETS free allowances allocated to EU production of sectors in scope.

• **Gradual phase-in**, with simplified procedures, to allow businesses to adapt.
CBAM: Sectors

• In the **first phase:**
  
  ![CEMENT](image1)
  ![IRON & STEEL](image2)
  ![ALUMINIUM](image3)
  ![FERTILISER](image4)
  ![ELECTRICITY](image5)

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

- **2023-2025**: CBAM Information
- **2026-2035**: Reduction of free allocation due to "Fit-for-55"
- **2036 onwards**: CBAM Adjustment

**State of CBAM phase in**
- Transitional CBAM
- CBAM partially phased in
- CBAM fully phased in

**Third country emissions in CBAM sectors**

**EU ETS emissions in CBAM sectors**

Emissions covered by free allocation

Emissions covered by free allocation

Reduction of free allocation due to "Fit-for-55"
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.
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 some **unused certificates** to authorities.
International Dimension

• Extensive bilateral discussions with third countries to solicit their views

• IMF and the OECD carrying out work to study how such measures could support international efforts to reduce greenhouse gas emissions.

• 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 Dimension

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

1. Countries applying EU ETS or linked to it will be excluded
2. Deduction of the carbon price paid in third countries from the adjustment on imported products
3. International agreements on how to take into account carbon price
4. Special rules on electricity for countries whose electricity market is “coupled” with the Union internal market for electricity
CBAM: countries affected

• Third countries with an emission trading system completely aligned with the EU’s ETS will be excluded from CBAM.

• Measures taken by third countries recognised through right to deduct.

• International agreement to take account of carbon price paid domestically

• In the first phase, CBAM will primarily affect a limited number of countries.
Top 10 exporters in 4 of the sectors (except electricity) (share of total volume of imports)

*Excluded as Norway is under the ETS*
Thank you