



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



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



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

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

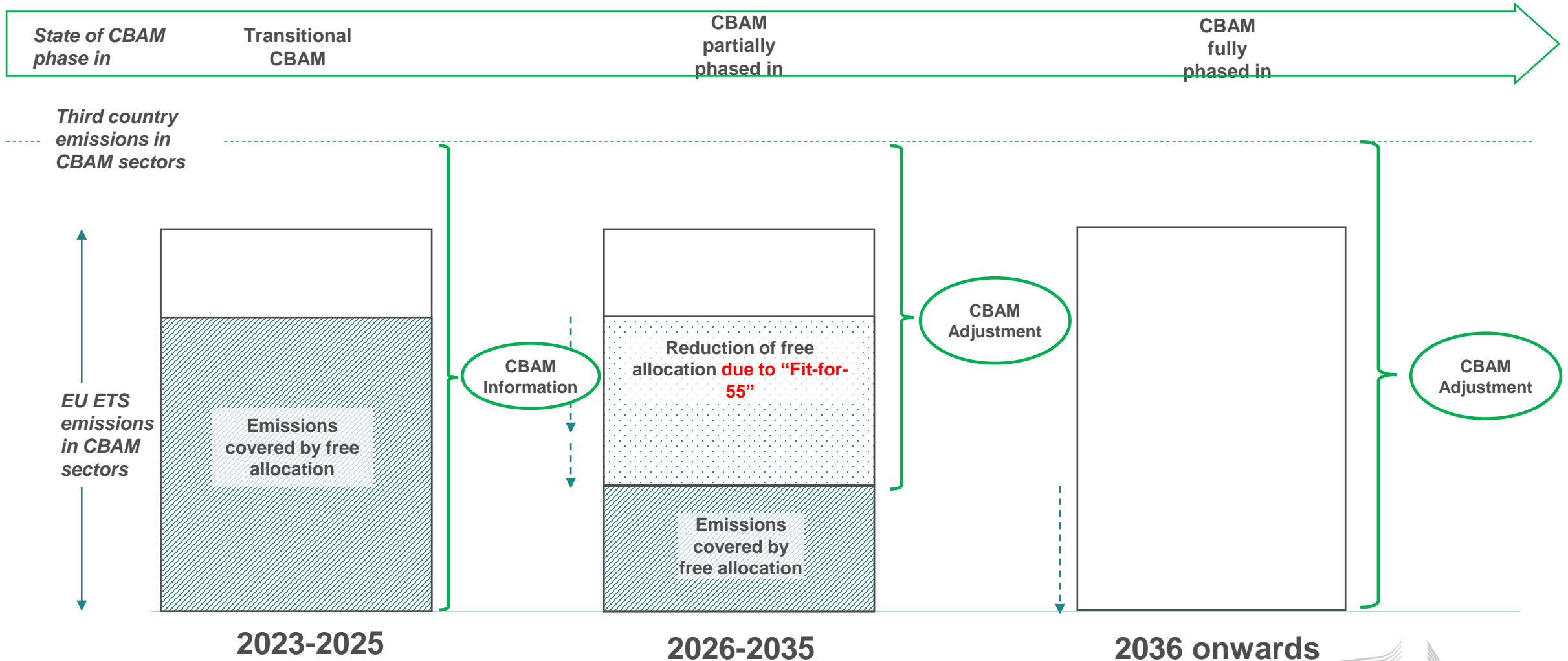
Collection of information, not money. Carbon price info will be actual emissions for each sector.

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



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.

CBAM: Practical implementation

EU importers

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.”

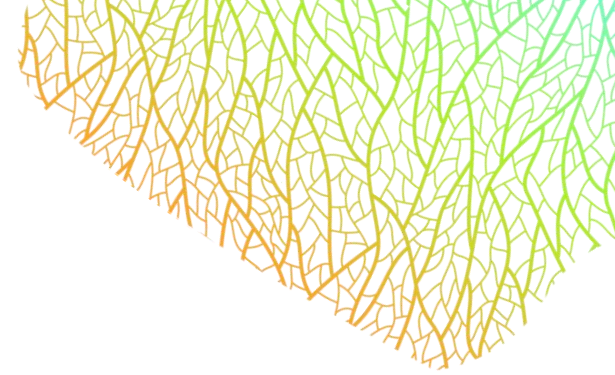
- CBAM designed to be replicated by international partners.

International Dimension

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

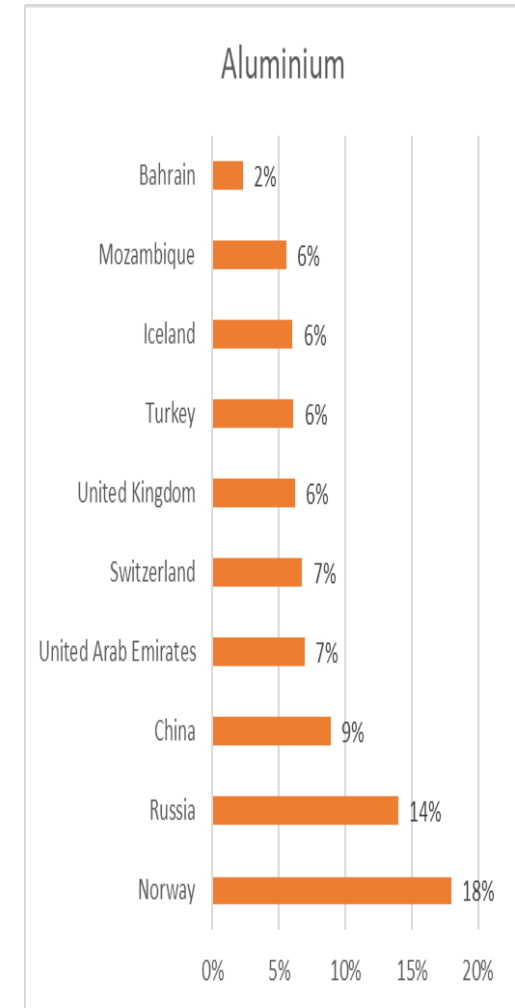
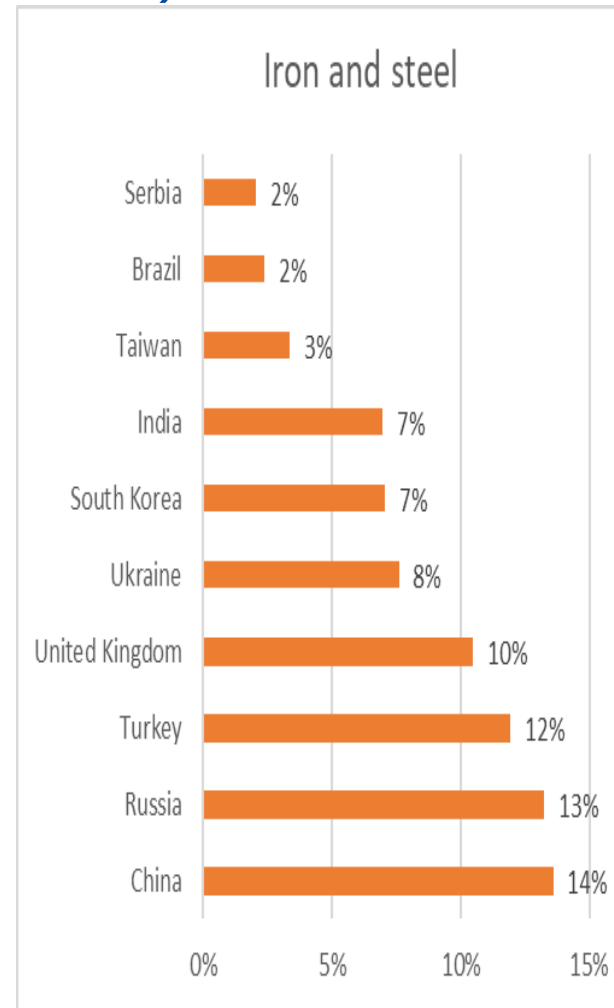
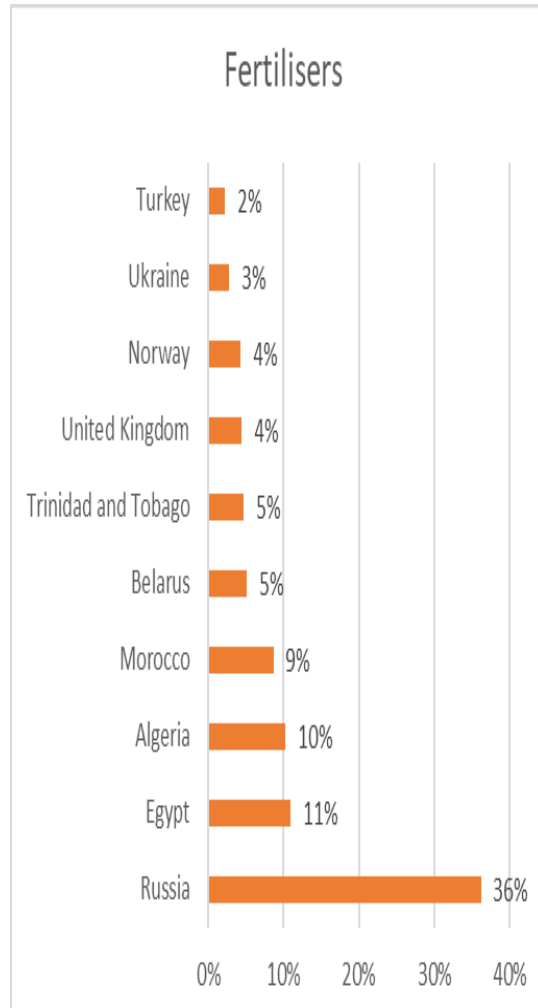
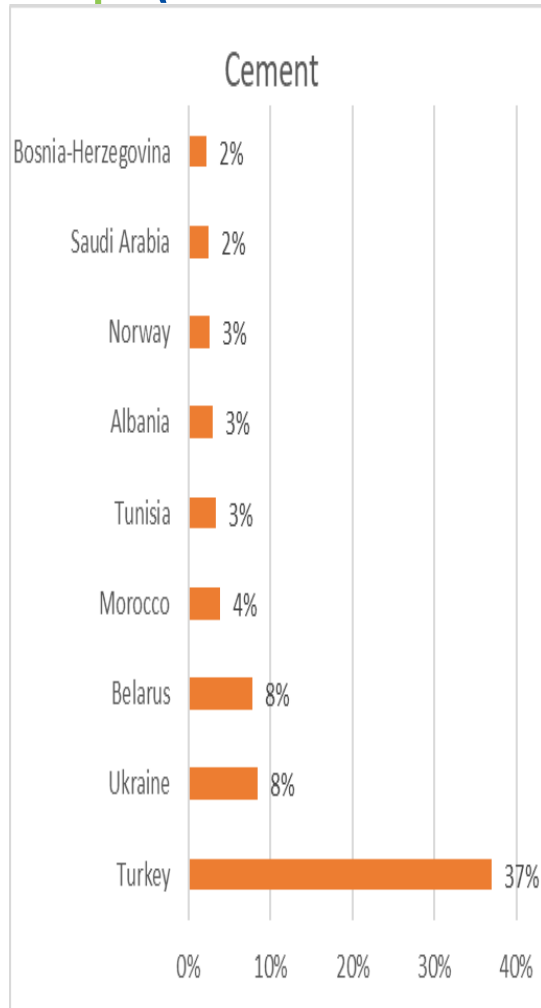
1. Countries applying EU ETS or linked to it will be excluded
2. Deduction of the carbon price paid in third countries from the adjustment on imported products
3. International agreements on how to take into account carbon price
4. Special rules on electricity for countries whose electricity market is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



© European Union 2020

Unless otherwise noted the reuse of this presentation is authorised under the [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license. For any use or reproduction of elements that are not owned by the EU, permission may need to be sought directly from the respective right holders.

Slide xx: [element concerned](#), source: [e.g. Fotolia.com](#); Slide xx: [element concerned](#), source: [e.g. iStock.com](#)

