CARBON BORDER ADJUSTMENT MECHANISM

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

Presentation for IETA Conference

CBAM is an environmental measure

Single objective:

Prevent environmentally harmful carbon leakage to ensure effectiveness of EU climate policy and **European Green Deal**



Side effect 1:

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

Side effect 2:

Generate revenues: possible EU Own Resource

European Commission

CBAM: Key elements of design

Mirrors EU **Emissions Trading System (ETS)** through new mechanism for imports into EU



Comply with WTO

and be fully in line with international trade rules

Alternative to existing **EU ETS carbon leakage measures**

Focus on **carbon intensive sectors**

European Commission

CBAM: Basic Concept

- **EU importers will need to surrender CBAM certificates for imports of certain goods based on actual emissions**. The price reflects what they would have paid if the goods had been produced in the EU's through the 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 protection.

- **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.

- **Gradual phase-in**, with simplified procedures, to allow businesses to adapt.

European Commission

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 around 50% of CO2 emissions in industrial sectors*
  - ✓ *Practical feasibility*

- In a **second stage**, extended to other sectors and indirect emissions

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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

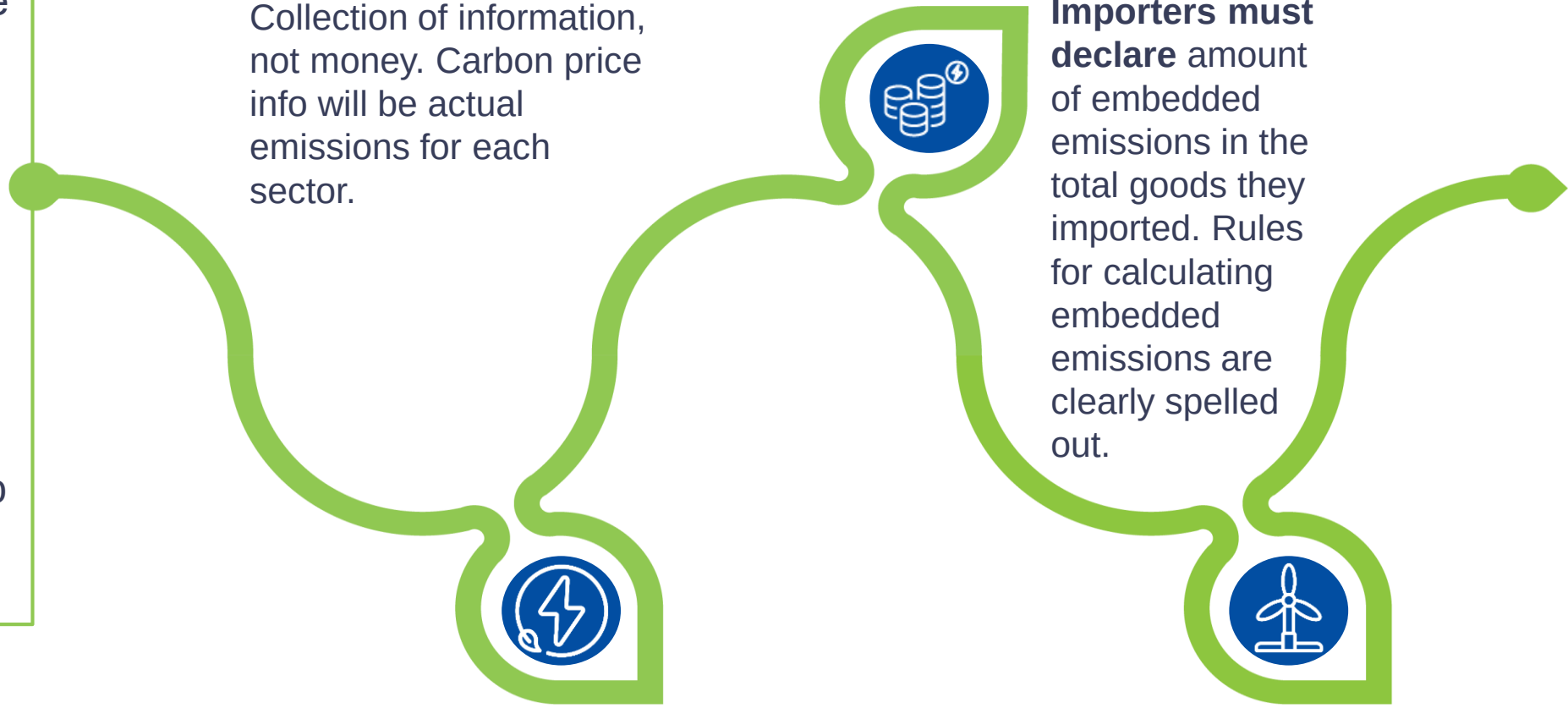
Gradual phase-in with simplified procedures, to allow businesses to adjust

Transitional phase
2023-25

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

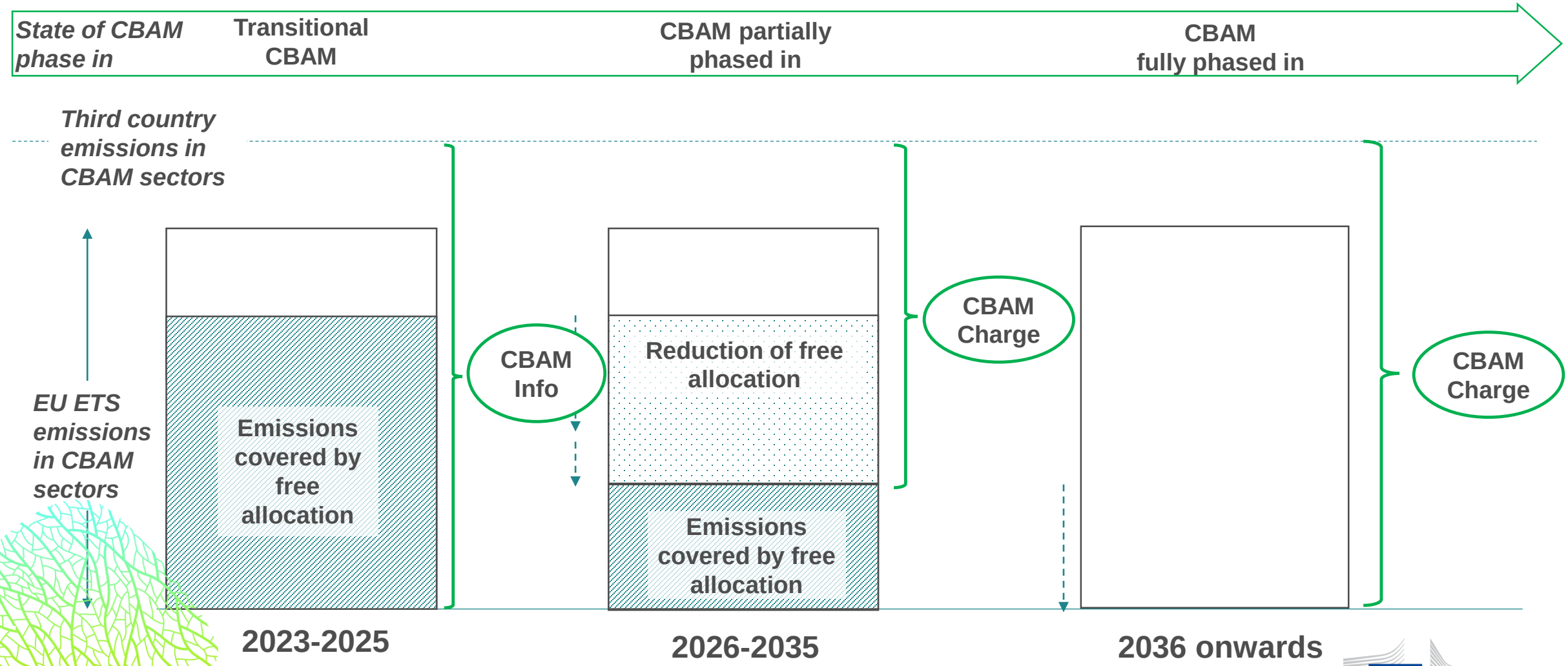
After transitional phase
2026 onwards

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



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



European Commission

Administration



Producer outside EU

Customs

- Checks authorisation of declarants
- Transmits information to national Authorities

EU Border

Import data

Goods

Commission

- Supervises both Customs and the national Authorities
- Central Registry
- Price publication
- Anti-circumvention

27 National Climate Authorities

- Authorises CBAM declarants
- Sells CBAM certificates
- Takes account of carbon price paid abroad
- Controls CBAM declarations
- Accredits verifiers
- Applies Penalties+Appeal

Authorised CBAM declarant

- Is authorised by a national Authority
- Declares yearly verified emissions embedded in imports and carbon price paid abroad
- Surrenders CBAM certificates

Annual declaration of embedded emissions and surrendering of CBAM certificates

Verified by accredited verifiers

European Commission

International Dimension

CBAM will incentivise decarbonisation in third countries :

1. Actual Emissions methodology (Art.7 and Annex III)
2. Countries applying EU ETS or linked to it will be excluded
3. Deduction of the carbon price paid in third countries from the adjustment on imported products
4. Special rules on electricity for countries whose electricity market is “coupled” with the Union internal market for electricity

Thank you



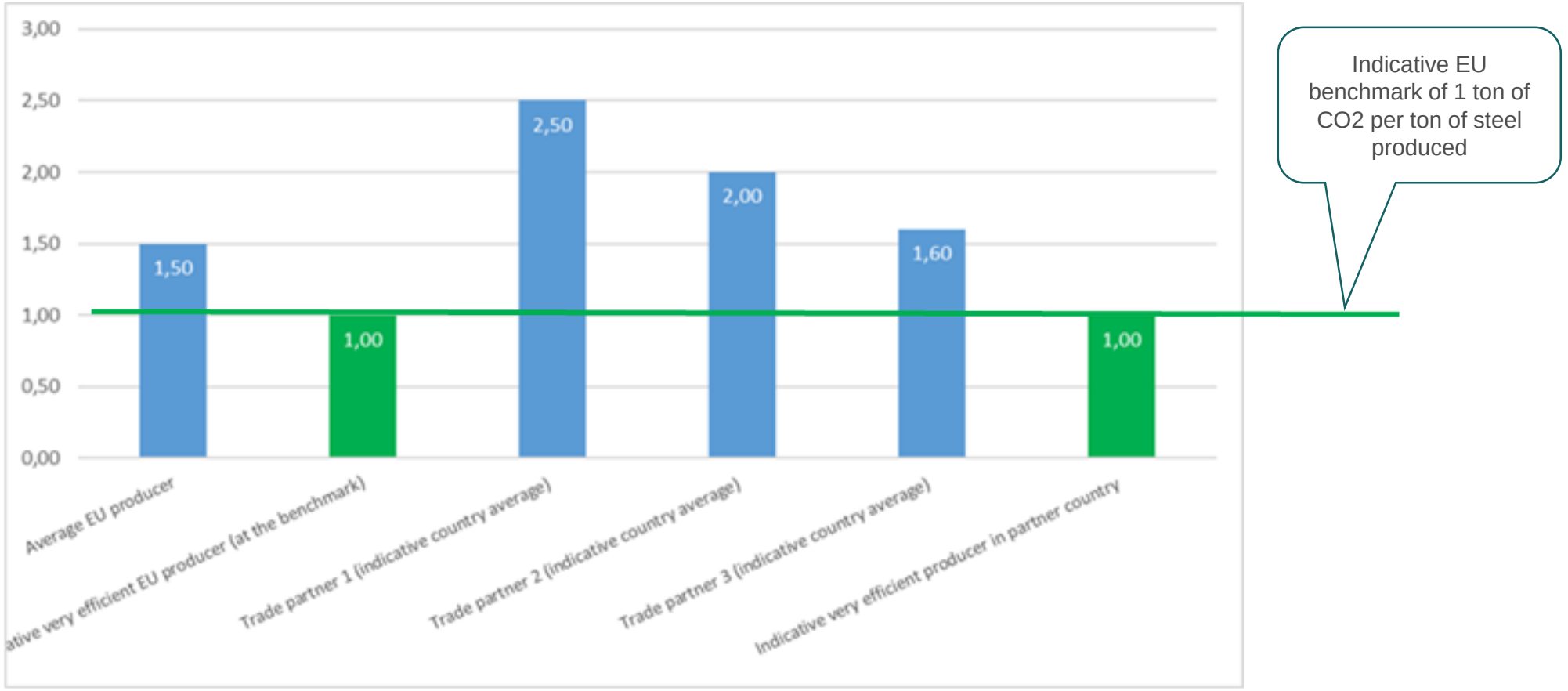
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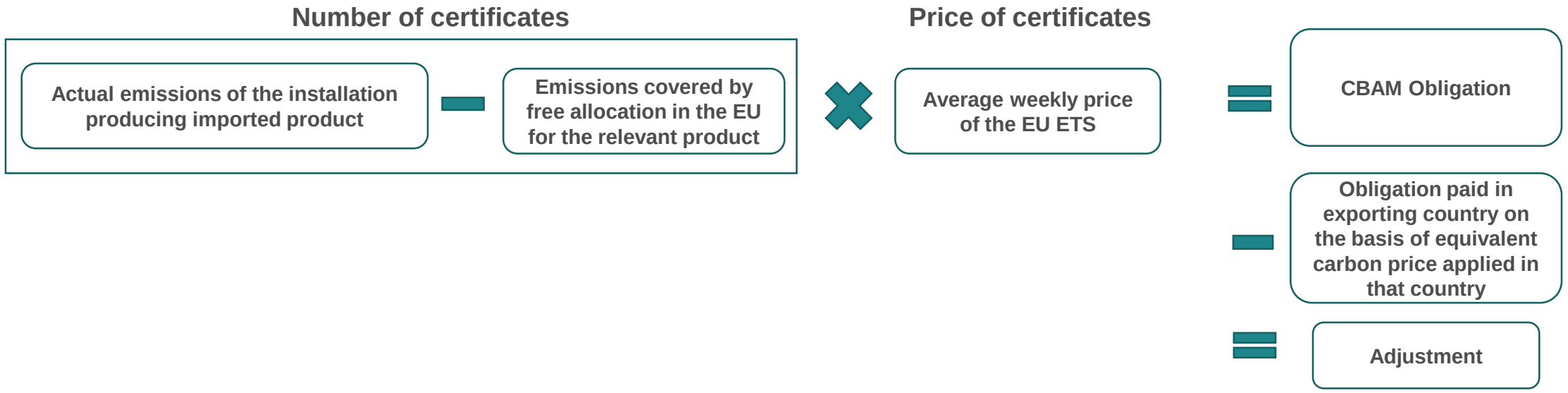
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Indicative emission intensities for steel (in ton of CO2 per ton of steel produced)



European Commission

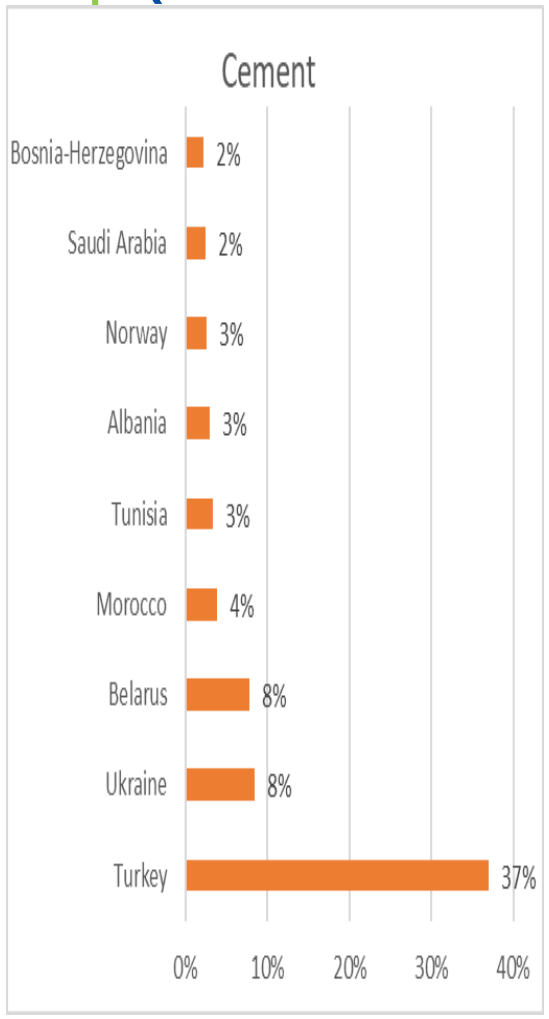
Example of adjustment on 1 ton of imported steel in 2030

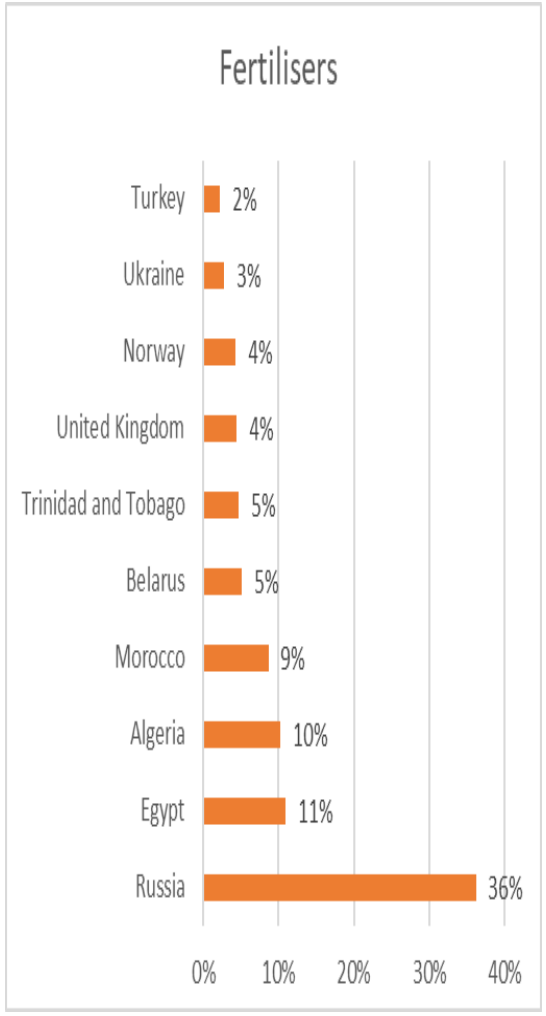


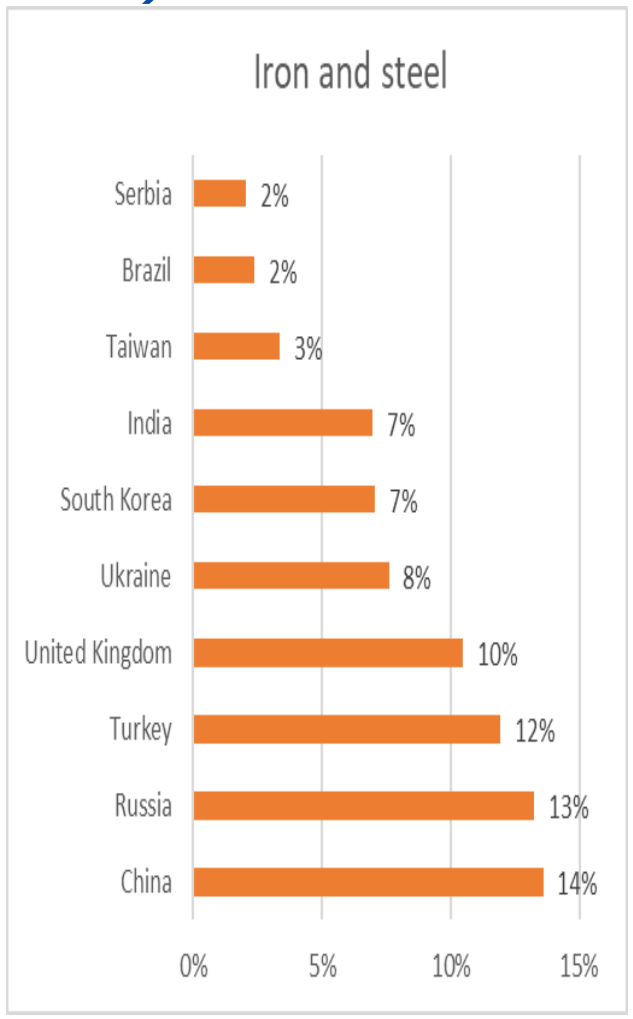
CBAM: ETS mirroring

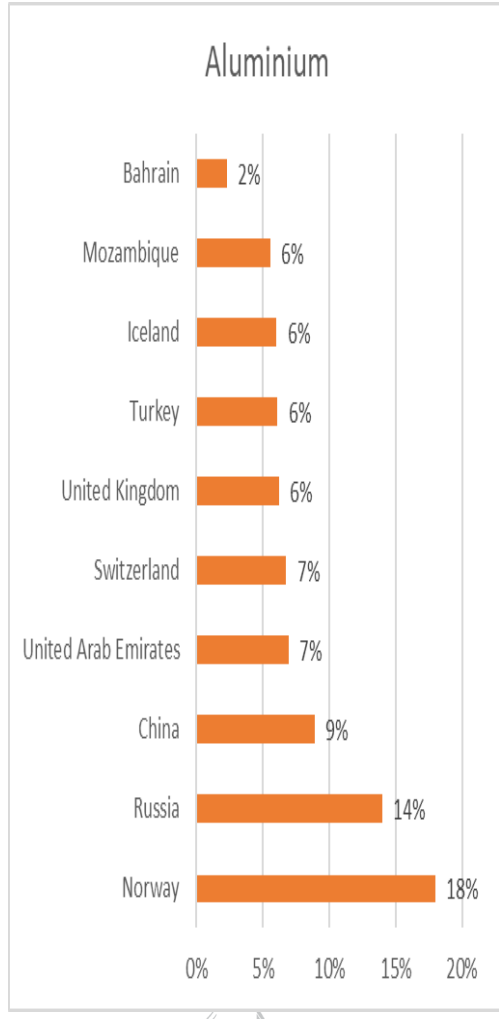
- **Replicates as much as possible on the EU ETS** with some minor differences when duly justified and pertaining to:
    - Calculation of price
    - Tradability of certificates
    - Validity over time

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









**Excluded as Norway is under the ETS*

European Commission