



Carbon Border Adjustment Mechanism

Joint Position Paper

17 November 2021

Energy-intensive industries (EIIs) provide directly around 2.6 million jobs and represent the foundations of critical and strategic value chains that enable the EU economy and society. We support the objectives of the European Green Deal and the EU's ambition to accelerate significantly the transition towards the 2050 climate neutrality objective to ensure timely action by 2030, provide a balanced reduction pathway and redistribute in time efforts across the EU society.

Climate change is a global challenge and, in this context, Energy-intensive industries support initiatives that aim at incentivizing third countries to take CO₂ reduction measures. Furthermore, the replacement of European production by imports from foreign countries with lesser carbon constraints negatively affects both the Union climate action efforts worldwide and the competitiveness of its industrial basis. As long as competitors in third countries are not subject to equivalent carbon costs and constraints, carbon leakage is a major threat for many EU industries.

We would like to comment on several crucial aspects of the draft text.

1. CBAM should co-exist with the current system of free allocation

Free allocation and, where granted, indirect costs compensation have proven effective measures to a large extent, although in the context of much lower carbon prices. Should a Carbon Border Adjustment Mechanism (CBAM) be introduced, it should include a solution for exports and co-exist with the current system of full benchmark-based free allocation at least until 2030, to provide certainty for low-carbon investments and avoid market distortions. Any subsequent modification of the rules needs to be conditional to a monitoring system assessing and ensuring the effectiveness of the CBAM for import and export.

Maintaining the current carbon leakage measures with a complementary CBAM indeed reduces the level of the border measure, since the CBAM takes into account also the free allocation granted to EU industry through a reduction of certificates for importers. Hence, while remaining WTO compliant, it could mitigate the impact on trade flows and facilitate international trade relations compared to a

CBAM without existing carbon leakage measures which would apply the full carbon costs to traded products. Furthermore, such approach will considerably smoothen the impact of CBAM on European value chains. It would also allow to test the mechanism safely.

2. CBAM needs to be water-tight and ensure a full level playing field between EU and non-EU suppliers

It is indispensable that any CBAM secures a full level playing field between EU and non-EU industries, leading to the full equalisation of CO2 costs. In this respect, the proposals should:

- Ensure a full CO2 cost equalisation between EU and non-EU suppliers – for instance by incentivising the use of verified emissions, and strictly mirroring the CO2 cost structures of European companies under the EU ETS;
- Avoid any circumvention by importers, notably through the recognition of the risks caused by resource shuffling, costs absorption and by providing sufficient remedies to these problems;
- Be watertight through the establishment of proper monitoring and reporting mechanisms, and the creation of a dedicated CBAM authority;
- Ensure that any exemption or reduction of the number of CBAM certificates is granted on fully comparable carbon pricing measures.

3. CBAM should include a solution for European exports

It is critical that CBAM features a solution to preserve the competitiveness of the EU exports. Already today, European industries are faced with a competitive disadvantage in relation to producers in third countries, when these do not have a similar carbon trading scheme in place. This trend will only be exacerbated by the increased pressure of the EU ETS review and if the implementation of CBAM is accompanied by a phase-out of free allocation. This will inevitably result in lower access to export markets for the European industry, with a negative impact on global CO2 performance. It will eventually put at risk the achievement of the EU's ambitious climate goals.

It is therefore essential to find a solution for European exports as part of CBAM. Such solution should be developed in time for the implementation of CBAM. By becoming a significant exporter of low-carbon products and thus replacing high-carbon products in third countries, the EU would contribute to a significant reduction in global emissions.

4. CBAM should be implemented gradually and in cooperation with energy-intensive sectors

Finally, to ensure a smooth roll-out of CBAM, it is imperative that:

- CBAM is designed in close cooperation with the industrial sectors.
- CBAM is applied gradually. As an untested system, CBAM present significant risks, both for sectors which would be covered in the Regulation, and those that could potentially be added following a possible expansion of the scope. Any further expansion of the scope of CBAM should leave a sufficiently long transition period for the mechanism and reporting mechanisms to be put in place.
