IIA feedback Summary and Synthesis

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Andrei Marcu, ERCST
Dariusz Dybka, ERCST

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Roundtable on
Climate Change and
Sustainable Transition

ERCST activities

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- **Project** "Border Carbon Adjustments in the EU – Issues and Options"
  - Full **Report** by Summer/Fall 2020
- **Feedback** to Inception Impact Assessment
  - Discussion & Synthesis Paper on Feedback to IIA (May 28)
- International outreach (**townhalls**)
- Organized discussions:
  - March 5th Stakeholders Meeting
  - March 25th High Level Meeting
  - April 15th Update Webinar

https://ercst.org/border-carbon-adjustments-in-the-eu/

ERCST important issues

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- Objectives should be clear and include both **carbon leakage** and **competitiveness** (market for low carbon products); The IA should examine broader set of solutions – not only BCA
- **Timing** of any mechanism is critical
  - Is it envisaged only after 2030?
  - Needs to be part of the package not a promise that will/MAY come ex-post
- Decompose into 12 **design elements**: policy mechanism, trade coverage, geographic scope, etc.
- Focus on 5 **criteria**: environmental objectives, competitiveness, legal feasibility, technical feasibility, administrative implications
- Examine **socio-economic impacts**: inside / outside of the EU

Inception Impact Assessment Roadmap

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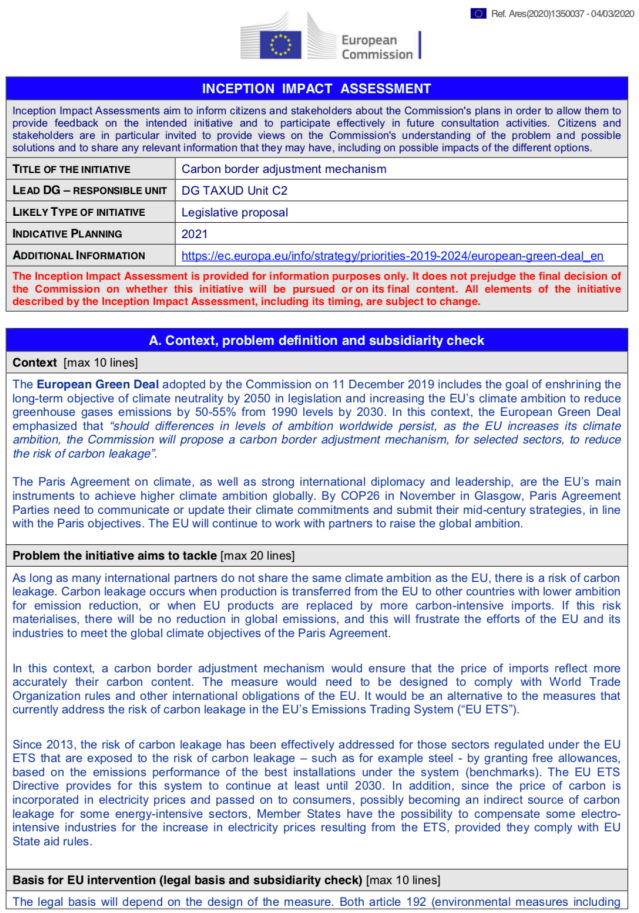
(Published 4 March 2020)

Timeline

- Feedback period: 4 March-1 April 2020
- Commission adoption: planned for second quarter 2021

Issues to be studied:

- Type of <u>policy instrument</u>:
  - carbon tax on selected products (imports & domestic)
  - a new carbon customs duty or tax on imports
  - extension of the EU ETS to imports
- <u>Methodological approach</u> to evaluating the carbon content and carbon pricing of imported products
- <u>Sectoral scope</u>



Ref. Ares(2020)1350037 - 04/03/2020

European Commission

INCEPTION IMPACT ASSESSMENT

Inception Impact Assessments aim to inform citizens and stakeholders about the Commission's plans in order to allow them to provide feedback on the intended initiative and to participate effectively in future consultation activities. Citizens and stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to share any relevant information that they may have, including on possible impacts of the different options.

TITLE OF THE INITIATIVE	Carbon border adjustment mechanism
LEAD DG – RESPONSIBLE UNIT	DG TAXUD Unit C2
LIKELY TYPE OF INITIATIVE	Legislative proposal
INDICATIVE PLANNING	2021
ADDITIONAL INFORMATION	https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

The Inception Impact Assessment is provided for information purposes only. It does not prejudge the final decision of the Commission on whether this initiative will be pursued or on its final content. All elements of the initiative described by the Inception Impact Assessment, including its timing, are subject to change.

A. Context, problem definition and subsidiarity check

Context [max 10 lines]

The **European Green Deal** adopted by the Commission on 11 December 2019 includes the goal of enshrining the long-term objective of climate neutrality by 2050 in legislation and increasing the EU's climate ambition to reduce greenhouse gases emissions by 50-55% from 1990 levels by 2030. In this context, the European Green Deal emphasized that *"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"*.

The Paris Agreement on climate, as well as strong international diplomacy and leadership, are the EU's main instruments to achieve higher climate ambition globally. By COP26 in November in Glasgow, Paris Agreement Parties need to communicate or update their climate commitments and submit their mid-century strategies, in line with the Paris objectives. The EU will continue to work with partners to raise the global ambition.

Problem the initiative aims to tackle [max 20 lines]

As long as many international partners do not share the same climate ambition as the EU, there is a risk of carbon leakage. Carbon leakage occurs when production is transferred from the EU to other countries with lower ambition for emission reduction, or when EU products are replaced by more carbon-intensive imports. If this risk materialises, there will be no reduction in global emissions, and this will frustrate the efforts of the EU and its industries to meet the global climate objectives of the Paris Agreement.

In this context, a carbon border adjustment mechanism would ensure that the price of imports reflect more accurately their carbon content. The measure would need to be designed to comply with World Trade Organization rules and other international obligations of the EU. It would be an alternative to the measures that currently address the risk of carbon leakage in the EU's Emissions Trading System ("EU ETS").

Since 2013, the risk of carbon leakage has been effectively addressed for those sectors regulated under the EU ETS that are exposed to the risk of carbon leakage – such as for example steel - by granting free allowances, based on the emissions performance of the best installations under the system (benchmarks). The EU ETS Directive provides for this system to continue at least until 2030. In addition, since the price of carbon is incorporated in electricity prices and passed on to consumers, possibly becoming an indirect source of carbon leakage for some energy-intensive sectors, Member States have the possibility to compensate some electro-intensive industries for the increase in electricity prices resulting from the ETS, provided they comply with EU State aid rules.

Basis for EU intervention (legal basis and subsidiarity check) [max 10 lines]

The legal basis will depend on the design of the measure. Both article 192 (environmental measures including

Feedback to IIA overview

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- **219 feedbacks** presented until April 1, 2020
- Both from the EU and outside:
  - Companies/business organizations (62), business associations (89), academic/research institutions (10), consumer organizations, individuals (21), non-governmental organizations (21) and (4) public authorities (from Malta, Sweden, Ukraine, Italy)
- Based on the quality and the relevance of the submissions, the overview of **32** was presented in the summary **in alphabetical order**
- Most numerous categories were put in the **synthesis** (industry/associations, NGOs, think tanks/research institutes)

Key elements

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The **Key elements of the Synthesis** focus on the following aspects:

- The perceived objective of a BCA (environmental, competitive, diplomatic, fiscal);
- Developing policy options:
  - Type of policy instrument;
  - The methodological approach to evaluating the carbon content;
  - Emissions/sectoral and geographical/trade scopes;
- The use of revenues (internal, external);
- The operationalization of a BCA (cooperation)

Summary & Synthesis – Draft Paper

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- The ERCST paper is composed of the **Summary table** and **Synthesis** with main groups of respondents: industry (including associations), NGOs and think tanks/research institutions
- In-depth **Synthesis table** provides a comparison of main commonalities
- Report will be available on the: https://ercst.org/event/stakeholders-views-cbam/

In-depth comparison of main groups

Industry (1)	NGO (2)	Think tanks & research institutes (3)
General view		
Supportive of CBAM and regard it to have a **competitiveness** objective Depending on **trade intensity** (retaliation concerns) In favor of also covering EU **exporters**	Generally in favor of the CBAM because of to the strong **international signal** it sends out and the incentive it gives to build **carbon markets** outside the EU	More holistic thinking on the full scope of policy options. Taking into account CBAM **main objectives**: diplomatic, competitive, carbon footprint consumption, carbon leakage Some are **sceptical** regarding the political and international feasibility
WTO compliance		
Precedent **WTO cases** show that a carbon border adjustment can be implemented in a transparent way / non-discriminatory	**WTO compliance** provided the trade retaliate actions should be avoided - not to repeat experience with aviation and stop the clock	**WTO compliance** possible providing equal treatment and transparency Sensitive to global trading partners, asymmetrical effort (**competitiveness** focus)
Position on free allocation and scope		

• Generally in favor of preserving **free allocation** (as a consequence suggested extending benchmarks to imported products / comparing imports to EU average); alternatively:
  ○ Supplementary to free allocation
  ○ Gradual phase out
• Keeping an **option** in the IA of BCA coexisting with ETS measures
• Possible **pilot sectors**: Steel, Cement, Fertilizers
• Maintain **indirect cost** compensation
• **Sectoral scope**: EITEs, Power, natural gas
	• Strong view that BCA should be considered as an alternative to **free allocation**
	• Impact assessment should include assessment of **different options** (free allocation of allowances vs BCA vs combination) and assess environmental benefits
	• **Estimation of embedded emissions / Calculation of adjustment:** Recommend BCAs based on existing sectoral carbon footprint benchmarks
	• Narrow **sectoral coverage** (EITEs)
		• A parallel system aligned with the EU ETS (phasing out the **free allocation**)
		• Looking into **impacts** inside and outside the EU
		• For the **pilot** taking into account low trade intensity (attention to EU neighboring countries for cement and electricity)
		• Highlight the difficulties in measuring **embedded carbon** from foreign producers
		• Possible **exemptions**: linking existing ETSs and offering preferential treatment for certain developing countries

In-depth comparison of main groups

Industry (1)	NGO (2)	Think tanks & research institutes (3)
Low carbon technologies and carbon leakage protection		
Recommend creating market for **low carbon products** based on existing / supported low carbon technologies (protection of investments)	Required investments to low carbon technologies through **contracts for difference** or alternative measures such as subsidies, **public procurement**	Market for **low carbon products** (broader discussion should be covered in the IA) Mention **alternatives**: i.e. carbon product standard
Recycling revenues		
Funds collected through EU carbon border adjustment mechanism can support 'fresh money' for EU budget and/or Just Transition (**Revenue recycling**)	**Funds** from BCA used to support developing countries (i.e. financing ITMOs)	**Funds** potentially go to Modernization/Innovation Fund, if more to broader budgets. The safe version could be supporting the global climate financing

Takeaways

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- Carbon Border Adjustment Mechanism (CBAM) topic of high interest and relatively **high on the agenda**
- The feedbacks were **generally positive** both from NGO and business circles
- Most submissions are focusing on the **essence of the mechanism**, less on the scope of the IIA itself
- As a consequence of submitted papers there will be need for further thinking how to design the mechanism and a single or multiple **formula for calculating the adjustment**

Next Steps

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- **Conceptual Stakeholders Discussion – June 9th (3 PM)**
- **Townhalls:**
  - **Republic of Korea**
  - **India**
  - **Japan**
  - **South Africa**
  - **Ukraine**
  - **USA**
- **ERCST Paper on BCA Issues and Options with Alternatives**

Thank you