



# CBAM Public Consultations' Summary

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# Timeline of the project Part I

- **Project** “Border Carbon Adjustments in the EU: Issues and Options”
  - **Report** launch 30 September 2020
- **EC Consultation process:**
  - Discussion & Synthesis Paper on Feedback to IIA (May 28)
  - Public Consultations (12 weeks) discussion September, 10
  - Public Consultation ERCST answer to the questionnaire October 28
  - Public Consultations Summary event November, 25
- **International outreach** (‘Virtual Town Halls’) with EU trade partners: USA, South Korea, India, Japan, South Africa, Mexico, Russian Federation, Ukraine
- **Stakeholder engagement and convening (MS)**

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

# ERCST activities Part II

## Reports:

- **A sectoral assessment**
- **A BCA proposal**
- **An analysis of the EC's CBAM proposal** expected by June 2021.
- **A proposal for a framework and pathway for introducing different policy measures to address carbon leakage and competitiveness**

## Activities:

- Stakeholder consultations
- Continued international dialogue - town halls
- Additional interactions

# Basis of the rationale to the answers

- Q. 3,4 What are the objectives of the BCA?
- Q. 5 What are the important policy interlinkages and why?
- Q. 6 Any of the design option should take place and why? Other options which ought to be considered?
- Q. 7 Different scopes are outlined, what on and why?
- Q. 8 Sectoral scope: priority sectors, pilot sectors
- Q. 10 Method of calculation of embedded emissions
- Q. 11 How do you verify carbon content (third party or self-certification)
- Q. 13 BCA implementation risks (transshipment, substitution, resource shuffling)
- Q. 14 Geographic scope (exemption, policy criteria)
- Q. 15 Economic/Social/Environmental impacts of implementation of a BCA

## Example: Possible list of sectors

9. Considering the criteria outlined in the previous question, please indicate which according to your view could be the **priority sectors that the Carbon Border Adjustment Mechanism should focus on**. Please choose sectors in the drop down menu that includes all the economic activities in Level 3 NACE (rev. 2) excluding services. Should more detailed specification be required, or if you would like to select sectors not covered in the drop down menu, this can be provided in sectors 7-10 below at Level 4 NACE (rev. 2).

Sector 1. Please select from list (Level 3 NACE rev.2 excluding services)

- A011 Growing of non-perennial crops
- A012 Growing of perennial crops
- A013 Plant propagation
- A014 Animal production
- A015 Mixed farming
- A016 Support activities to agriculture and post-harvest crop activities
- A017 Hunting, trapping and related service activities
- A021 Silviculture and other forestry activities
- A022 Logging
- A023 Gathering of wild growing non-wood products

# Structure of ERCST Summary

- Based on **stakeholders'** positions and answers made available to ERCST
- Structured in the following key topics:
  - Preferred option,
  - Scope and pilot phase,
  - Carbon leakage and free allowances,
  - Calculation of carbon content,
  - Impacts & circumvention,
  - WTO aspects and Climate Diplomacy
  - Alternatives

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Key issues in Public Consultations  
Answers to the Public consultations  
Preferred option

- Option 1: **A tax applied on imports** at the EU border on a selection of products whose production is in sectors that are at risk of carbon leakage:
  - Some stakeholders are interested in this option as the most direct fiscal measure. Still, this could be a departure from the climate adjustment approach and disconnected from emissions trading. This option would need to go through WTO-compliance assessment.
- Option 2: **Extension of the EU Emissions Trading System** to imports, which could require the purchasing of emission allowances from under the EU Emissions Trading System (ETS) cap by either foreign producers or importers:
  - This option received some interest. It is impacting the current ETS regulations though and most likely puts pressure on sectors which are already in the ETS. It is potentially controversial for those who try to keep the current carbon leakage protection with the free allocation. Some would call it a California model<sup>3</sup>, but it is commented that this regional emissions trading was designed already with the border adjustment, not added afterwards.
  - When it comes to the EU ETS cap adjustment, it is necessary to assess the scope of the cap adjustment, for example for the top emitting ten sectors.
- Option 3: **Obligation to purchase allowances from a specific pool outside the ETS** dedicated to imports, which would mirror the ETS price:
  - Generally, the preferred option. Respondents highlight the advantages of mirroring the ETS price, and at the same time the flexibility of keeping imports in a separate pool of allowances (no cap for imports). This option is viewed as strengthening the ETS system without interfering with the current market.
- Option 4: **Carbon added tax** (e.g. excise or VAT type) at consumption level on a selection of products whose production is in sectors that are at risk of carbon leakage. Under this option, the tax would apply to EU production, as well as to imports:
  - This option seems to bring a new logic to the climate protection system, taking example from the most common fiscal approach. The advantage is that exports can be exempted from the taxation as it is in the VAT system. Complications relates to data availability and determining the carbon content of imports. It is seen by some as potentially replacing the current ETS system as such.

<sup>3</sup> <http://www.environnement.gouv.qc.ca/changements/carbone/documentation-en.htm>  
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Scope and pilot phase

- The positions in this round of submissions strongly support a scope which would include EU exports
- Pilot phase: In the case of steel, the CBAM could initially apply only to finished and semi-finished steel products such as coils, slabs, plates, bars, billets, etc. A workable solution should, however, avoid carbon leakage risk also for products further downstream that are primarily based on steel, such as tubes, fasteners and wire drawings. Depending on the sector, CBAM could apply to basic/raw, semi products, and products of first processing.

<https://ercst.org/event/carbon-border-adjustment-public-consultations-summary/>

# Design options

- Option 1: **A tax** applied on imports at the EU border - interesting for some stakeholders as the most direct fiscal measure
- Option 2: **Extension of the EU Emissions Trading System** - When it comes to the EU ETS cap adjustment, it is necessary to assess the scope of the cap adjustment, for example for the top emitting ten sectors
- Option 3: **Obligation to purchase allowances from a specific pool outside the ETS** - Generally, the preferred option. Respondents highlight the advantages of mirroring the ETS price, and at the same time the flexibility of keeping imports in a separate pool of allowances (no cap for imports).
- Option 4: **Carbon added tax** (e.g. excise or VAT type) - The advantage is that exports can be exempted from the taxation as it is in the VAT system. Complications relates to data availability and determining the carbon content of imports

# Scope and pilot phase

- The positions in this round of submissions strongly support a scope which would include **EU exports**
- Sectors that a **pilot** could consider besides steel include fertilizers, cement, electricity (imports of non-decarbonized hydrogen). Aluminum would like to be assessed, not included in the measure
- In case of a pilot phase: **primary products**, but to avoid carbon leakage risk also for products further downstream
- Answers suggest that depending on the sector, CBAM could apply to **basic/raw**, semi products, and products of first processing
- Additionally some answers stress the complexity of the **value chain**
- Important to consider the **cross-dependency** of sectors and associated impacts; e.g. CBAM for steel and/or cement will increase the cost for construction projects in the EU for all other sectors



# Carbon leakage and free allowances

- The general sentiment remains **in favor of preserving the free allocation of allowances**. Alternatively, some support the gradual phase out of free allocation
- For industry during an **initial phase**, EU CBAM must be complementary to the allocation of free allowances under the EU ETS. If this is not possible, sectors have expressed reluctance/resistance to be included the pilot phase
- Strong view from the **civil society** that BCA should be considered as an alternative to free allocation
- The thesis is being put forward that the **current system will likely 'run out' of free allowances towards the end of ETS Phase IV**, but that combining it with a BCA for selected sectors would guarantee sufficient protection against carbon leakage with enough free allocation for those that stay with free allocation
- There is a recommendation to keep an option in the impact assessment (IA) of **BCA coexisting with ETS measures**
- For some sectors maintaining **indirect cost compensation** is essential in order to be interested to participate in the mechanism

# Calculation of carbon content

- Responses highlight the **difficulties in measuring** the embedded carbon from foreign producers
- Some support the **benchmark** approach (average GHG emissions of the 10% best performing EU producers), while others promote the idea of '**best practice**' as a default value for imports
- Some suggest that the calculation could be based on a **standard rate** for certain products for **all countries**. For more complex products, each country of origin should have a different value
- Other propose that for particular sectors the calculation of the **actual carbon content** would be needed, in particular for those where **indirect emissions** play an important role.
- For some sectors, indirect emissions from EU production might be insignificant, but high for **potential imports** depending on the electricity mix in exporting countries. Indirect emissions need to be taken into account for the calculation even in case where indirect emissions from domestic production are low.

# Impacts & circumvention

- A CBAM reflecting the carbon content of imports as a carbon leakage measure, assumes that the carbon content of **imported products has the same or higher carbon footprint** as the European production.
- One possible solution to circumvention could be to determine
  - a general **carbon footprint for each individual trading partner country**, so as to avoid a situation of shuffling emissions (attempts to label “for export” production from least emitting plant of a particular company),
  - or one global value to avoid transshipment through **third countries**.
- With respect to use of the **funds** collected through CBAM they can support for EU Recovery Fund and/or Just Transition (revenue recycling); can be used to support developing countries (i.e. financing ITMOs) or potentially go to Modernization/Innovation Fund.
- Some go a step further and see CBAM revenues as a **financing stream for industry innovation** through Contracts for Difference or reforming the labour taxes and redistribution income for households.

# WTO aspects & climate diplomacy

- The general link with the trade policies and climate diplomacy remain valid, and there are signals from climate measures being adopted in **other jurisdictions** (China, S. Korea, Japan, possibly US), including in light of the **updated NDCs** towards the end of 2020 and the COP26 in 2021
- The majority of answers are in favor of the CBAM because of the **strong international signal** it sends out and the incentive it gives to build carbon markets outside the EU
- The question remains if the WTO is the only **forum** to address BCA internationally? Other possible fora include the UNFCCC, G20, etc.
- Possible exemptions: linking **existing ETSs** and offering preferential treatment for certain developing countries (SIDS, LDCs)

# Alternatives

- Ideas floated on alternatives:
  - **Climate Contribution** paid by end consumer relative to the carbon intensity of the product in complement to current ETS system in order to cover costs not yet paid by producers
  - **Import contribution** with ETS price and free allowances (where system of free allowances is maintained)
- Alternative carbon leakage protection mechanisms other than CBAMs e.g.:
  - Designing the system as a **market entry fee** rather than a border mechanism (i.e. a consumption charge limited to one step in a value chain, or a selection of steps)
  - EU **product standards** for GHG intensity
  - These will all ideally lead to a **market for low carbon products**
- An EU label of “climate friendly” product can also bridge the path in WTO negotiations allowing the differentiation of products (carbon standards)

# Takeaways I

- Stakeholders remain **positive** towards the border adjustment, but worried about the impact on the **current domestic measures** to address carbon leakage, and the functioning of the EU Emissions Trading System (ETS) at large. Stakeholders point out to the **irreversibility of the process** (e.g. following their participation in the pilot phase, sectors would not be able to move back to current arrangements).
- However, they also look for **alternatives** to the four CBAM policy instrument options tested by the EC in the Public Consultation questionnaire.
- There are nonetheless still voiced concerns over the risk of CBAM triggering **retaliation** measures by partners and impacting competitiveness of trade intense sectors.
- Some convergence regarding the design of the **policy instrument** and a certain degree of a common understanding of the mechanism among key stakeholders starts to emerge.

## Takeaways II

- Some additional comments and positions provided outside the **Questionnaire** – this was analyzed for the Summary of this briefing
- In case the EU ETS extension option is adopted as a solution, the potential impact on **adjustment to the ETS cap** requires further studying; this should take into account that even in sectors where imports of emissions is not taking place at the moment, imported emissions might occur when the carbon leakage risk materializes in the future
- The question remains how a CBAM would relate to the “Fit for 55” legislative package to reduce emissions by at least 55% by 2030 when **proposed in June 2021**. Possible overlaps and synergies will be visible also between the energy taxation, emissions trading and CBAM.
- Generally, there are no objections to **aligning** the carbon adjustment with the **EU carbon price** as expressed through the EUA price. Some stakeholders urge the EC to also include in the adjustment the indirect costs and final cost of climate policies in the EU before comparing it with the carbon costs and content at origin.

# Next Steps

- **The BCA Part II Project Kick off 9 December**
- **20-21 January Townhall – global outreach**
- **Presentation of the Sectoral ‘deep dive’**
  
- **EC Impact Assessment**
- **The EU CBAM Proposal – June 2021**
- **July 2021 ERCST Townhall**



**Thank you**

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