



ERCST CBAM Project Part II Inception

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Roundtable on
Climate Change and
Sustainable Transition

Timeline of the project Part I

- **Project “Border Carbon Adjustments in the EU: Issues and Options”**
 - **Report** launch 30 September 2020
- **EC Consultation process: Inception IA and Public Consultations**
- **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)**
 - March 5th: Dissecting and Assessing CBAM Design Options
 - March 25th: High-Level International Roundtable
 - April 15th: Evaluating Alternative CBAM Scenarios
 - May 28th: Inception Impact Assessment Feedback Summary & Synthesis
 - June 9th: Exploring Alternatives to the CBAM
 - September 10th Public Consultations Discussion

<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

Report I (sectoral assessment)

- Through consultations with stakeholders and experts, research, data analysis and cooperation with sectoral associations, a ‘deep dive’ will be carried out on what a CBA would mean for individual sectors.
- This assessment will try to assess the impacts and suitability of the likely design of the CBAM (at this stage, there will still be multiple design options on the table) on individual sectors and/or groups of producers.
- **expected March 2021**

Report II (A BCA proposal)

- ERCST will outline its views on what a BCA proposal should look like, combining the BCA dimensions that were identified and assessed during Part I of the project with the takeaways from the sectoral assessment conducted under the first activity. This exercise is intended to provide a providing a balanced and ‘best outcome’ (for ERCST) for a BCA on its own.

- **expected April 2021**

Report III (analysis of the EC's CBAM proposal)

- Over the summer, after the EC's CBAM proposal has been published, the project team will evaluate the proposal in order to inform the debate, including through identifying gaps and issues in the proposal.

- **possible date: September 2021**

Report IV

- **A proposal for a framework and pathway for introducing different policy measures to address carbon leakage and competitiveness (*report 4*).** Part I of the project highlighted that, in the view of ERCST, a framework of policies/a toolbox is needed to address the issue of carbon leakage and competitiveness, with the BCA being one important element, but by no means the only element. This proposal, considering the formal CBAM proposal on the table by then, will attempt to articulate how the different policy tools can function together, and formulate at what stage of the EU's decarbonization process they could be applied.
- **planned November 2021**

Design Elements:

1. Coverage of trade flows
2. Policy mechanism
3. Geographic scope
4. Sectoral scope
5. Emissions scope
6. Determination of embedded emissions
7. Calculation of adjustment
8. Use of revenue

The image displays eight overlapping tables, each representing a design element of the ERCST. The tables are:

- Coverage of Trade Flows**: Compares 'Imports' and 'Exports' options across various benefit and feasibility metrics.
- Sectoral Scope**: Evaluates 'Basic Materials only (EITs)', 'Basic Materials (EITs) & Electricity', and 'Basic Materials, Electricity & More Complex Products'.
- Calculation of Adjustment**: Considers 'No consideration of foreign policies' and 'Consideration of price-based and regulatory policies'.
- Use of Revenue (1/2)**: Analyzes 'Refund to covered domestic firms' and 'Refund to covered foreign firms'.
- Policy Mechanism**: Examines 'Carbon Tax', 'Customs Duty', and 'Extension of the EU ETS'.
- Emissions Scope**: Distinguishes between 'Direct (Scope 1) Emissions', 'Indirect (Scope 2) Emissions from Energy', and 'Other Indirect (Scope 3) Emissions'.
- Determination of Embedded Emissions (1/2)**: Looks at 'Calculation at product level (face shipment)' and 'Benchmark: best practice domestic/global'.
- Use of Revenue (2/2)**: Considers 'Domestic fund for climate innovation' and 'Domestic fund for competitiveness'.
- Implications for Free Allocation**: Compares 'Free Allocation Unaffected', 'Free Allocation Gradually Substituted', and 'Free Allocation Rescinded Immediately'.
- Geographic Scope**: Assesses 'All Countries', 'Exemption of Least-Developed Countries', and 'Exemption on Environmental Grounds (often Pick-Party to Paris Agreement)'.
- Determination of Embedded Emissions (2/2)**: Evaluates 'Benchmark: average carbon intensity of EU producers', 'Benchmark: best foreign practice', 'Benchmark: worst foreign practice', and 'Hybrid benchmark: scope 2 actual foreign'.
- Scenario 1: "Most Probable" (1/3)**: Provides a detailed analysis of 'Imports Only', 'Extension of the EU ETS', and 'Gradual Phase-out of Free Allocation'.

The goal of the sectoral assessment

- An introduction setting out the objectives of the study and our methodology, including the questions
- A detailed profile of each of the main sectors under discussion for potential inclusion in the scope of the CBAM that:
 - includes quantitative and qualitative information on each sector with relevance for the suitability and design of a CBAM
 - presents this information for each sector in a largely uniform format, allowing easier comparison/analysis across sectors
 - offers takeaways for each sector on the implications of sector characteristics for a CBAM
- And a concluding, cross-cutting analysis at the end that discusses what this means for which sectors to include or not, what it spells for CBAM design etc.

Sectoral assessment – key questions

- **Market structure and dynamics in your sector in the EU**
- **Environmental considerations in the EU**
- **Foreign production:**
 - Emissions intensity
 - Resource shuffling
- **Trade patterns in your sector**
- other, relevance to participate in the pilot, reaction to alternative approaches including the consumption charges

Questions sectoral 'deep dive'

Market structure and dynamics:

- **1.1. Industrial organization:** Number and size of firms; ownership of firms; degree of vertical integration.
- **1.2. Products:** Length and complexity of downstream value chains; key products/activities at risk of leakage and competitiveness impacts; availability of substitutes.
- **1.3. Investment prospects:** What level of investment is needed over the next decade, both in normal upgrading and in upgrading to meet ambitious climate goals?

Questions sectoral 'deep dive'

Environmental considerations:

- **2.1. Emissions intensity:** For both domestic and foreign production: sectoral average for emissions intensity; spread between clean and dirty plant; any challenges of allocating emissions from a single process to different resulting products.
- **2.2. Indirect emissions, carbon costs:** What percentage of the sector's total average costs, total emissions, are for electricity, steam or heat imported from outside the production site?
- **2.3. Low-carbon pathways:** Current technology pathways for decarbonization of the sector, estimated timeline to commercial availability, and projected costs relative to current technologies.
- **2.4. Potential for resource shuffling:** Potential for foreign trading partners to allocate existing clean production to EU exports.

Questions sectoral 'deep dive'

Trade patterns:

- **3.1. Trade flows:** level of exports, imports, relative to domestic production of key goods
- **3.2. Trading arrangements:** Nature of trade for the key products (e.g. on exchanges vs. bespoke contracts; average shipment size/volume; etc.)
- **3.3. Trade partners:** Main export destinations, import sources; any notable trade routes involving specific hubs.

Next Steps

- **Today's 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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