

Role of CCS in CBAM

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The CBAM should include provisions to recognize and account for Carbon Capture and Storage (CCS) and other technologies that provide carbon storage in the jurisdictions of countries subject to CBAM, to ensure a level playing field for producers.

The current architecture of the Carbon Border Adjustment Mechanism (CBAM)¹ under the provisional agreement reached in trilogues, outlines how to calculate the amount of carbon embedded in a product and what the importer must pay for that carbon. The specifics for the method to calculate embedded carbon emissions are currently being worked out and will be determined in implemented acts before the end of the transitional period in 2025².

One issue that needs to be addressed in the methodology is how CBAM will treat Carbon Capture and Storage (CCS) which takes place in a jurisdiction where the imported product is made. It is still unclear whether CCS in a third country will be recognized or if there are any provisions under consideration to include it.

Article 1 (2) of the proposed CBAM regulation states that “the CBAM complements the system for greenhouse gas emission allowance trading within the Union established by Directive 2003/87/EC³ by applying an equivalent set of rules to imports”. This implies that the CBAM mirrors EU ETS, therefore the way CBAM treats emissions including CCS needs to mirror what is happening in EU ETS.

Currently, there is no recognition of CCS in article 6 (calculation of carbon), article 9 (calculation of costs) or in Annex III (methods for calculating embedded emissions) of the CBAM. The methodology for calculating actual emissions and costs is being developed through implementing acts, which will set out detailed rules.

The EU ETS Directive recognises the role of CCS. In the EU ETS, CO₂ is netted out and does not require surrendering of CO₂ allowances. Treatment of CO₂ by the operator of an installation where the CO₂ is not emitted but transferred to another installation where the CO₂ is captured, is provided by article 49 (1) of the Monitoring and Reporting (MRR) for GHG⁴. The provision states that “The operator shall subtract from the emissions of the installation any amount of CO₂ originating from fossil carbon in

¹ Provisional Agreement on Proposal for a regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism (COM(2021)0564 – C9-0328/2021 – 2021/0214(COD))

² Implemented act referred to in article 7 (6) on the application of the elements of the calculation methods set out in Annex III including determining system boundaries of production processes and relevant precursor materials, emission factors, installation specific values etc. and implemented act referred to in article 9 (4) concerning how to make the conversion of the average yearly carbon price in a third country and the corresponding reduction of CBAM certificates.

³ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (Text with EEA relevance)

⁴ Commission Implementing Regulation (EU) 2018/2066 of 19 December 2018, on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council and amending Regulation (EU) No 661/2012. (Text with EEA relevance)

activities covered by Annex I to Directive 2003/87/EC, which is not emitted from the installation, but transferred out of the installation to any of the following:

- (a) a capture installation for the purpose of transport and long-term geological storage in a storage site permitted under Directive 2009/31/EC;
- (b) a transport network with the purpose of long-term geological storage in a storage site permitted under Directive 2009/31/EC;
- (c) a storage site permitted under Directive 2009/31/EC for the purpose of long-term geological storage.”⁵

Pending the formal approval of a revised EU ETS Directive in mid-2023 the MRR will have to be updated.

CCS which is capturing the emissions at the stack and storing them is one element that is important. Other technologies expected to play an important role and currently under discussion for recognition in the EU ETS.

Direct Air Capture with Carbon Capture and Storage (DACCS) and Bioenergy with Carbon Capture and Storage (BECCS) are technologies not currently credited under the EU ETS. As a first step, they are currently under discussion in the Commission’s proposal for a Regulation to establish a Union Carbon Removals Certification Framework, expected to be adopted by 2024. Furthermore, based on the EU ETS Directive, by 2026 the Commission should report to the European Parliament and to the Council on how emissions removed from the atmosphere and safely and permanently stored, for example through direct air capture, could potentially be covered by emissions trading.

Broadly speaking, DACCS and BECCS use similar storage technologies and there is no reason under the principle of technology neutrality why they should not be credited in EU ETS. If DACCS and BECCS are included in the EU ETS they should, as an extension of this, also be accounted for in the CBAM. If EU ETS allows CCS to be netted out, then this possibility must also be provided in the CBAM. Since that provision is not currently in the regulation it should be included under the methodology that is being developed under the implemented acts. If CCS provides that no CO₂ certificates need to be surrendered in the EU ETS the same principle should apply to other jurisdictions in the case of CBAM.

This will contribute to generate a level playing field between EU and non-EU producers using CCS to reduce their footprint and will create incentives to increase the deployment of carbon capture worldwide and the development of storage capacity.

⁵ Directive 2009/31/EC of 23 April 2009 on the geological storage of carbon dioxide and amending Council Directive 85/337/EEC, European Parliament and Council Directives 2000/60/EC, 2001/80/EC, 2004/35/EC, 2006/12/EC, 2008/1/EC and Regulation (EC) No 1013/2006. (Text with EEA relevance).