

EU carbon border adjustment mechanism

The European Commission proposed a carbon border adjustment mechanism (CBAM), which aims to level the playing field between EU and third-country producers by putting a carbon price on certain imported products, while phasing out free allocation of emissions allowances to European industry. The European Parliament's Committee on the Environment, Public Health and Food Safety (ENVI) adopted a report that puts forward significant amendments to the original proposal. The vote on the report was re-scheduled for the June II session.

Background

The EU [emissions trading system](#) (ETS) puts a cap on greenhouse gas (GHG) emissions, and divides them into emissions allowances that permit the emission of one tonne of carbon dioxide (CO₂) or CO₂-equivalent. Most of these allowances are auctioned. However, industries at risk of carbon leakage (i.e. relocation of production because of differences in carbon prices) receive free ETS allowances. In July 2021, the Commission presented the 'fit for 55' package to deliver on the EU 55 % net GHG emissions reduction target by 2030. As part of this package, the CBAM would gradually be introduced for certain third-country imports.

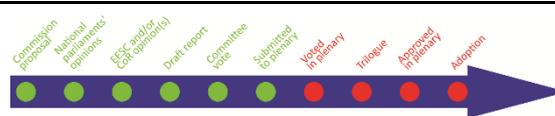
European Commission proposal

The [CBAM proposal](#), presented on 14 July 2021, aims to equalise the carbon price between domestic and imported products, thus limiting carbon leakage and encouraging global emissions reductions. From 2026 to 2035, the Commission proposes to phase in a price on imports of certain products, while gradually [phasing out](#) free ETS allocations to European producers, to ensure a level playing field between EU and third-country producers. The CBAM would initially cover five industrial sectors: iron and steel, cement, fertilisers, aluminium, and electricity generation. In the transitional phase, as of 2023, importers in these sectors would have to report their [embedded](#) GHG emissions of CO₂ and, where relevant, nitrous oxide and perfluorocarbons; they would not yet have to pay the financial adjustments. Once the CBAM becomes fully operational in 2026, EU importers of these products will need to obtain authorisation from a CBAM authority, and purchase carbon certificates corresponding to the carbon price that would have been paid to produce the goods in the EU, as free allocations are gradually reduced.

European Parliament position

The Parliament, in its March 2021 own-initiative [resolution](#) on an EU carbon border adjustment mechanism compatible with World Trade Organization (WTO) rules, suggests that all imports of products and commodities under the EU ETS be included in the mechanism, and highlights the need to provide special treatment to least developed countries (LDCs). The CBAM proposal was referred to the ENVI committee, which [adopted](#) its [report](#) on 17 May 2022, with 49 votes in favour, 33 against and five abstentions. The report amends the proposal's scope, broadening the products and sectors covered, and including indirect emissions. It also shortens the proposed timeline, with changes to both the transitional phase and the phasing-out of free allocations. Revenue from the CBAM would accrue to the EU budget, and an equivalent amount would be earmarked for decarbonisation efforts in LDCs. Furthermore, the report supports the setting up of a centralised administration by an EU CBAM authority, and defines additional cases that can constitute circumventions. At the June I session, the Parliament referred the report, before voting on the amendments, [back to the committee](#), which has voted to place the report on the June II agenda.

First-reading report: [2021/0214\(COD\)](#); Committee responsible: ENVI; Rapporteur: Mohammed Chahim (S&D, Netherlands). For further information see our 'EU Legislation in progress' [briefing](#).



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PE 729.462 – June 2022

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