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DRAFT REPORT

on Towards a WTO-compatible EU carbon border adjustment mechanism
(2020/2043(INI))

Committee on the Environment, Public Health and Food Safety

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on Towards a WTO-compatible EU carbon border adjustment mechanism (2020/2043(INI))

The European Parliament,

- having regard to the Agreement adopted at the 21st Conference of the Parties to the UNFCCC (COP21) in Paris on 12 December 2015 (the Paris Agreement),
 - having regard to the special report of the Intergovernmental Panel on Climate Change (IPCCC) entitled ‘Global Warming of 1.5°C’,
 - having regard to the Commission communication of 11 December 2019 on ‘The European Green Deal’ (COM(2019)0640),
 - having regard to the Commission communication of 17 September 2020 on ‘Stepping up Europe’s 2030 climate ambition’ (COM(2020)0562) and its accompanying Impact Assessment (SWD(2020)176),
 - having regard to its resolution of 15 January 2020 on the European Green Deal¹,
 - having regard to its resolution of 23 July 2020 on the conclusions of the extraordinary European Council meeting of 17-21 July 2020²,
 - having regard to the European Council conclusions of 12 December 2019 and of 17-21 July 2020,
 - having regard to Rule 54 of its Rules of Procedure,
 - having regard to the opinions of the Committee on International Trade, the Committee on Economic and Monetary Affairs, the Committee on Budgets and the Committee on Industry, Energy and Research,
 - having regard to the report of the Committee on the Environment, Public Health and Food Safety (A9-0000/2020),
- A. whereas the adverse impacts of climate change represent a direct threat to human livelihoods and ecosystems, as confirmed by the Special Report by the Intergovernmental Panel on Climate Change (IPCC) on Global Warming of 1.5°C;
- B. whereas the average global temperature has already risen by about 1.1°C above pre-industrial levels;
- C. whereas the Union and its Member States are committed to delivering climate action on

¹ Texts adopted, P9_TA(2020)005.

² Texts adopted, P9_TA(2020)0206.

the basis of the latest available scientific evidence;

- D. whereas ensuring effective and meaningful carbon pricing, as part of a broader regulatory environment, can act as an economic incentive to spur investments in the decarbonisation of the Union's economy;
 - E. whereas existing carbon leakage provisions under Union law have failed to demonstrate their effectiveness in delivering the necessary decarbonisation of the sectors concerned;
1. Is deeply concerned that currently none of the Nationally Determined Contributions (NDCs) submitted, including those of the Union and its Member States, are in line with the objective of pursuing efforts to limit the global temperature increase to 1.5°C above pre-industrial levels;
 2. Strongly deplores the non-cooperative and disloyal behaviour of some of the Union's trade partners in international climate negotiations, as recently observed at COP25; considers that this behaviour hampers our collective global ability to reach the objectives of the Paris Agreement;
 3. Stresses that the Union has the responsibility and opportunity to assume a leading role in global climate action;
 4. Takes note of the Commission's proposal to set the Union's 2030 climate target to 'at least 55 % net emissions reduction' compared to 1990 levels; highlights, however, that this target does not represent the Union's highest possible ambition, nor does it reflect the principle of equity and common but differentiated responsibilities;
 5. Notes that the Union had reduced its domestic greenhouse gas (GHG) emissions by 23.2 % below 1990 levels in 2018, while at the same time its GHG emissions embedded in international trade have been constantly rising, thereby undermining the Union's efforts to reduce its global footprint; underlines that the net imports of goods and services in the EU represent more than 20 % of the Union's domestic CO₂ emissions;
 6. Supports the introduction of a Carbon Border Adjustment Mechanism (CBAM) as a way to reduce global GHG emissions in the pursuit of the Paris Agreement objectives; states unequivocally that this mechanism should serve to better address GHG emissions embedded in international trade, thereby incentivising climate action both within the Union and by our trading partners, and not as an instrument for protectionism;
 7. Reiterates that the introduction of a CBAM should be part of a broader Union industrial policy that is both environmentally ambitious and socially fair, aiming at steering a decarbonised reindustrialisation of Europe that will create local jobs and ensure the competitiveness of the European economy while fulfilling the Union's climate ambition;
 8. Considers that a CBAM should cover all imports, but that as a starting point already by 2023 it should cover the power sector and energy-intensive industrial sectors like cement, steel, chemicals and fertilisers, which continue to receive substantial free allocations, and still represent 94 % of Union industrial emissions;

9. Underlines that the GHG emissions content of imports concerned should be accounted for on the basis of transparent and reliable product-specific benchmarks representing the global average GHG emissions content of individual products; considers that the carbon pricing of imports should also take into account the country-specific carbon intensity of the electricity grid;
10. Stresses that carbon pricing under the CBAM should mirror the dynamic evolution of the price of Union allowances under the EU Emissions Trading System (EU ETS); points out that the introduction of a rising carbon floor price under the EU ETS could ensure predictability under the CBAM while also ensuring a stronger price signal within the EU;
11. Points out that a CBAM is not per se incompatible with WTO rules, and highlights the necessity for any CBAM to be designed with the highest environmental integrity in mind;
12. Underlines the principle of non-discrimination under GATT Article III; stresses that treating imports and domestic production in the same way is a key criterion for ensuring WTO compatibility of any measure, and that, therefore, all existing measures on carbon leakage under Union law should immediately cease to apply as soon as the CBAM enters into force, as this mechanism would apply carbon pricing to imports similar to what is applied to EU installations under the EU ETS;
13. Calls on the Commission to address this concern during the upcoming reform of the EU ETS, ensuring the EU ETS delivers, through ambitious and meaningful carbon pricing, on the necessary GHG emissions reduction in line with the updated 2030 Union climate target and the objective of reaching net zero GHG emissions within the Union by 2050 at the latest, fully respecting the polluter pays principle; stresses that export rebates risk creating perverse climate effects, incentivising less efficient production methods for European exporting industries; urges the Commission to refrain from including export rebates in its proposal;
14. Supports the Commission's intention to use revenues generated by the CBAM as new own resources for the EU budget, and asks the Commission to ensure full transparency about the use of those revenues; believes these revenues should be earmarked for supporting the just transition and decarbonisation of Europe's economy, and for stepping up the Union's contribution to international climate finance in favour of Least Developed Countries and Small Island Developing States, which are most vulnerable to climate change;
15. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

Climate change can no longer be dismissed as a matter for scientists and future generations. Every day, we see its disastrous consequences right on our doorstep, and are left aghast by the devastating images that reach us from around the world. Climate disasters such as fires, heatwaves, droughts, floods, tidal waves, hurricanes, ice loss, pandemics and displaced people are all part of the reality in which we now live. And temperatures have only risen by an average of 1.1°C!

The Paris Agreement was a call to arms. We need to step up our efforts and aim higher because if we continue along the current path our climate policies will lead to warming of 3 to 4°C, if not more according to the bleakest scenarios. This would unleash unknown chaos across the globe! The European Union has to take responsibility for the greenhouse gas emissions it produces and those which, increasingly, it imports. And it has a pivotal role to play in multilateralism and essential international cooperation. As an economic and trading power, it must lead by example.

The people of Europe have woken up to the dangers and the urgency. They are doing their bit. Young people are taking part in climate protests. A growing number of economic actors are investing huge sums in renewables, in the energy efficiency and sobriety of buildings and transport, and in decarbonising industry and services. Farmers are showing that agriculture can actually help cool – rather than warm – the planet. To fight climate change we need to do more than just counter its dangerous effects; we need a collective will to transform our development model into something more sustainable, more socially fair, more resilient and more sovereign. Decarbonisation is not only imperative but should also be seen as an opportunity, as a powerful motor for job creation, technological, social, industrial and democratic innovation, and a regional leveller.

With the objective of achieving climate neutrality by 2050 at the latest, the Green Deal and the Climate Law, the fight against climate change lies at the very heart of the Union's political agenda. Yet Parliament resolutions, the Commission's agenda and Council discussions call on us to do more and better. The target to reduce emissions by 40% by 2030 is obsolete; scientists recommend raising the bar to 65%. Whatever the revised target, though, we will have to scrupulously and systematically review all related European policies, particularly the ETS Directive, which has a considerable influence on carbon pricing and so the strength of the incentive to switch from carbon. No climate policy can be labelled ambitious unless it slashes carbon allowances, abolishes the free allowances hobbling the carbon market, and sets a floor price for each tonne of CO₂.

Although it still falls short, the Union's climate policy goes further than that of many of its trading partners. If the fight against climate change is to be harnessed as an industrial, economic and social opportunity, decarbonising our economy must not trigger a fresh wave of deindustrialisation, since this would entail carbon leakage and investment losses. It is our duty to ensure that the demands we place on our companies do not put them at a disadvantage with respect to competitors exporting to the internal market and producing in countries that have set their sights lower than the Union. This is precisely why we need a carbon border adjustment mechanism (CBAM).

An essential tool, the CBAM will fuel a virtuous cycle aimed, first and foremost, at climate protection. It has several goals:

- to enhance the Union's climate action;
- to encourage our partners to raise their level of ambition;
- to protect our manufacturers from unfair competition;
- to spur the reshoring of economic activity back to Europe;
- to boost the Union's own resources.

To achieve these goals, the CBAM must meet several criteria.

- It must eventually apply to all imports to ensure that it covers our entire carbon footprint and prevents distortions on the internal market. Temporarily, it will apply to the main raw materials, since their production emits high amounts of CO₂ and is covered by the EU carbon market.
- It must come into effect as soon as possible and by no later than 2023. The shorter the transition period, the more effectively it will dovetail with the ETS market. An effective CBAM should spell the end of free allowances. These form the main instrument shielding against carbon leakage, but they have had strong perverse repercussions and led to windfall profits, as noted by the European Court of Auditors in its special report 18/2020, entitled 'The EU's Emissions Trading System: free allocation of allowances needed better targeting'.
- It must be consistent with multilateral trade rules insofar as several articles of the GATT make provision for acting in pursuit of interests greater than trade, such as the environment or health.
- It must feed into the European budget as a new own resource. We believe this revenue stream should be channelled towards the Green Deal and the just transition, with a significant share earmarked for the transition in the poorest countries and those most affected by climate change.

People in Europe are looking to the European Union for decisive and ambitious climate action. They want to see it break with the naivety or cynicism it has shown in trade policy, all too often signing deals in complete disregard for the ensuing social, environmental and industrial costs.

The carbon border adjustment mechanism presents us with a fantastic opportunity to act simultaneously on several fronts: climate, industry, jobs, resilience, sovereignty and reshoring. As such, it represents a major political and democratic litmus test for the Union. The European Parliament must show the way!