

CARBON BORDER ADJUSTMENT MECHANISM AS PART OF THE EUROPEAN GREEN DEAL

[DEPARTURES]

> **FIT FOR 55 PACKAGE UNDER THE EUROPEAN GREEN DEAL**

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In December 2019, the European Commission adopted its Communication on the European Green Deal. The key measures envisaged in this context include the proposal for a carbon border adjustment mechanism (CBAM) for selected sectors, scheduled for 2021. The proposal would aim to ensure that the EU's ambitious climate objectives are not undermined by a relocation of carbon-intensive productions outside the EU.

Preparatory work by the Commission included a March 2020 inception impact assessment. A public consultation took place between 22 July 2020 and 28 October 2020.

On 16 September 2020, Commission President Ursula von der Leyen announced a legislative proposal on the CBAM among the key new initiatives for 2021.

In its 2021 Work Programme, the Commission plans to table proposals for a CBAM and a CBAM as an EU own resource in the second quarter of 2021.

Parliament's Committee on the Environment, Public Health and Food Safety (ENVI) prepared an own-initiative report entitled 'Towards a WTO-compatible EU carbon border adjustment mechanism'. The Committees on International Trade (INTA) and on Economic and Monetary Affairs (ECON) were associated committees under Rule 57 of Parliament's Rules of Procedure. On 7 October 2020, the rapporteur Yannick Jadot (Greens/EFA, France) published the draft report.

Adopted by ENVI on 5 February 2021, the report called for the introduction of a CBAM as part of a broader EU industrial strategy, with a view to reducing the risk of carbon leakage. In addition, it analysed aspects relating to the design and scope of a CBAM, and its possible contribution to the financing of the EU budget. On 10 March 2021, Parliament adopted the resolution on a WTO-compatible CBAM with 444 votes for, 70 against and 181 abstentions.

On 14 July 2021, the Commission adopted its proposal for a CBAM, which would equalise the price of carbon between domestic products and imports in selected sectors. The adopted act is open for feedback until 17 November 2021. On 16 September 2021, the ENVI rapporteur for the file was appointed. Within the Council, the ad hoc working party on the CBAM has started its work.

Under the scheme, EU importers would buy carbon certificates corresponding to the carbon price that would have been paid, had the production taken place in the EU. When a non-EU producer has already paid a price for the carbon used in the production in a third country, the EU importer can fully deduct the corresponding cost.

The CBAM would be phased in gradually and would initially apply only to a selected number of goods at high risk of carbon leakage: iron and steel, cement, fertiliser, aluminium, and electricity generation. Over the 2023-2025 period, a simplified system would be in force, implying reporting obligations on the emissions embedded in relevant imports.

As from 2026, EU importers would start paying a financial adjustment by surrendering the amount of CBAM certificates that correspond to the emissions embedded in their imports. Correspondingly, under the intertwined proposal for the revision of the EU's Emissions Trading System (ETS), the free allowances under the ETS would gradually be phased out for the CBAM sectors as from 2026.

As a potential EU own resource, CBAM proceeds would contribute to the EU budget.

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Further reading:

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