

The EU's Border Carbon Adjustment Plans

What we know and what we don't



Stiftung Wissenschaft und Politik
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The Green Deal and Carbon Leakage

- Higher climate targets for 2030 and 2050
- EU Emissions Trading System (ETS) **most likely** remains the key tool in achieving large chunk of emission reductions; **taxation** could be upgraded by MS
- EU ETS covers industry and power production, more to come?
- Anti-Leakage measures = free allocation to **decline** over time for sectors at risk of carbon leakage
- Higher emission reduction targets → lower cap → higher CO₂ price → **higher risk of carbon leakage**

Proposal for a CBAM

– Carbon Border Adjustment Mechanism

Proposal by the Commission (February 2020):

- A **CO₂ tax** (e.g. excise or VAT type) at consumption level including imported goods (for some specific products)

(note: a tax would apply to both EU-products and imported products)

- A **customs duty** or **tax** applied on imports **at the EU border**
- An **extension of EU Emission Trading Scheme** to imports
 - Requiring the purchasing of emission allowances **under the EU ETS** by either foreign producers or importers
 - Requiring to purchase allowances from a **specific pool** outside the ETS

→ only imports, not exports

Further details ...

- The dossier lies with **EU TAXUD** (taxes and duties)
- European Commission (COM):
cement, steel and electricity would be covered initially by a CBAM
(maybe later: aluminium, fertilisers, chemicals)
- COM is looking into its **Energy Taxation Directive** in parallel → could come up with a CO₂-related framing of future energy taxation by MS
- EUCO (HoSG) in July: we intent to **raise revenues** with a CBAM
- WTO rules to **guide** the design

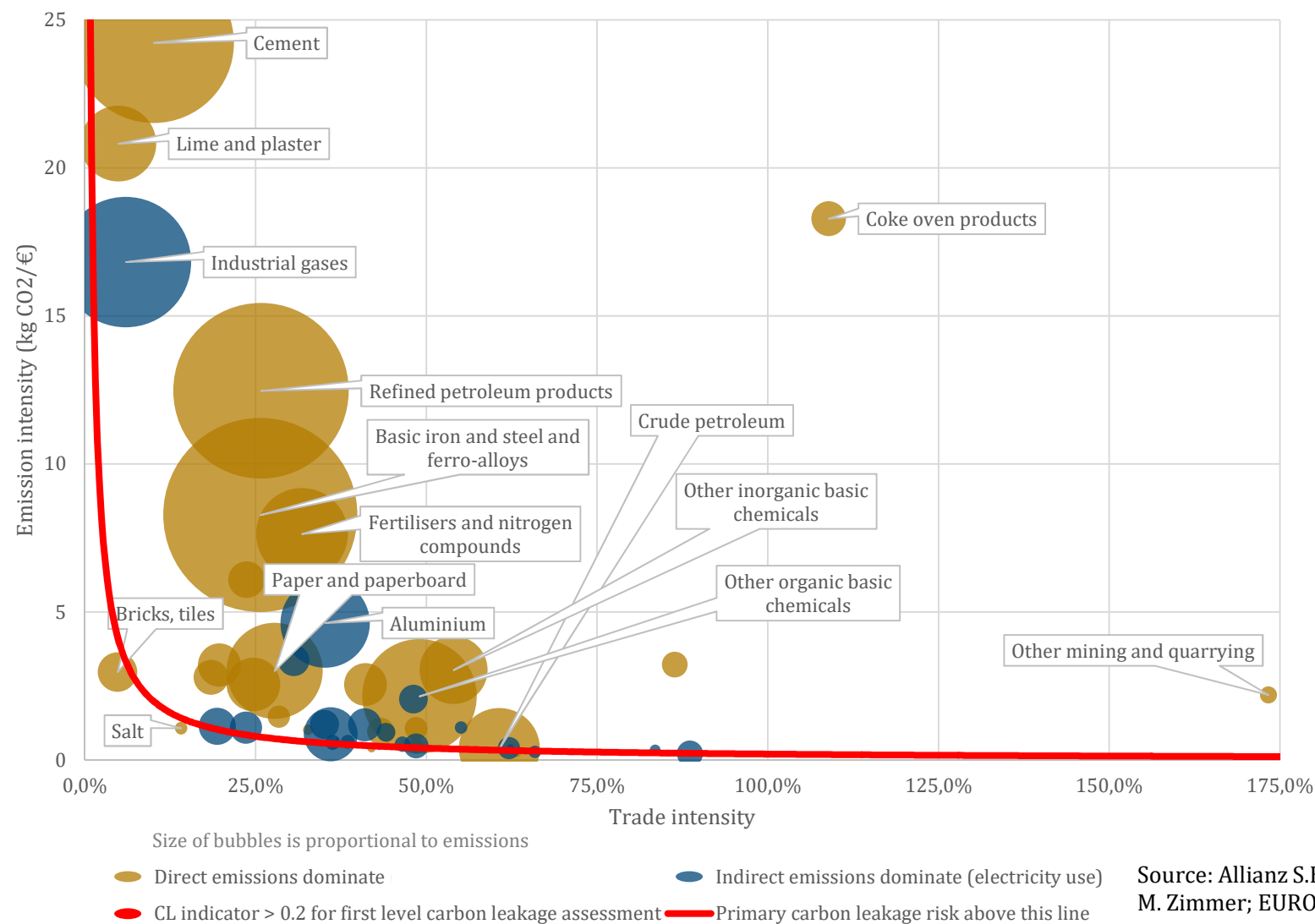
CBAM-agenda:

- Consultations ended 28.10.2020
- Legal draft by summer 2021
- Launch by 2023

... and unknowns

- **Sector coverage** and future of free allocation
- **CO₂-price** for imports
- **Exemptions** for countries with own climate policies in place
- Other exemptions
- **Default values** for assumed imported CO₂-content intended?
- Revenue use
- ...

Leakage risk by sector (bubble size proportional to emissions)



Alternatives?

Behind the border:

- Free allocation
- State aid for electricity cost
- Consumption charge (with output-based free allocation)
 - Reduces BCA legal risks related to export rebate question
 - Applies to all goods, imports included
 - Simplifies administration by placing a weight-based charge on consumption of basic materials in the internal market
- Carbon Contracts for Difference
- Low carbon production standards

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more: https://www.swp-berlin.org/fileadmin/contents/people/PublikationsLISTEN/dge_publicationsliste_Oct20.pdf

Thank you!

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