



CARBON BORDER ADJUSTMENT MECHANISM

A new, **green** way of pricing carbon in imports to the EU

European Energy Forum, 27 January 2022



Why do we need a CBAM?

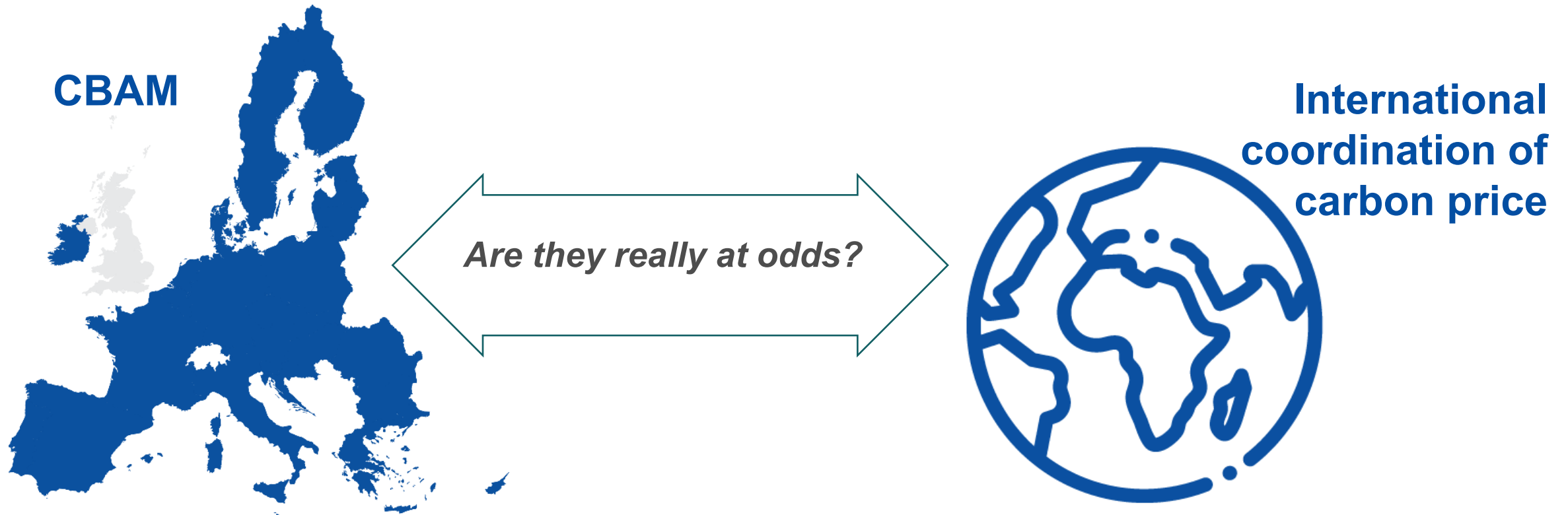
As the EU raises its climate ambition and differences in levels of ambition worldwide persist....

.. there is an increased risk of carbon leakage

Hence the EU needs a CBAM



But a CBAM or international coordination?

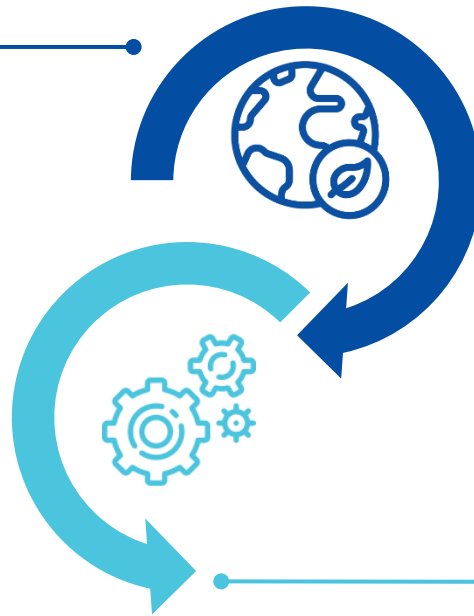


... climate action is urgent, so we need to act at all levels now

... starting with CBAM does not preclude joint work on international coordination

So what is the aim of the CBAM?

Prevent carbon leakage to ensure effectiveness of EU climate policy



Change behaviours

- Incentivise 3rd country producers to **reduce their emissions**
- Incentivise 3rd countries to adopt **green policy frameworks**

And how do we do this?

Four key elements of design

Mirror EU **carbon pricing** through new mechanism for imports into EU



Comply with WTO and be fully in line with international trade rules



Complement the **EU's Emissions Trading System (ETS)** measures



Focus on **carbon intensive sectors**

Sectors

- In the **first phase**:



CEMENT



IRON & STEEL



ALUMINIUM



FERTILISER



ELECTRICITY

- **Selected on basis of 3 criteria:**
 - ✓ *High risk of carbon leakage (High carbon emissions; High level of trade)*
 - ✓ *Covering more than >45% of CO2 emissions of ETS sectors*
 - ✓ *Practical feasibility*
- In a **second stage**, extended to other sectors

And a gradual phase-in of CBAM

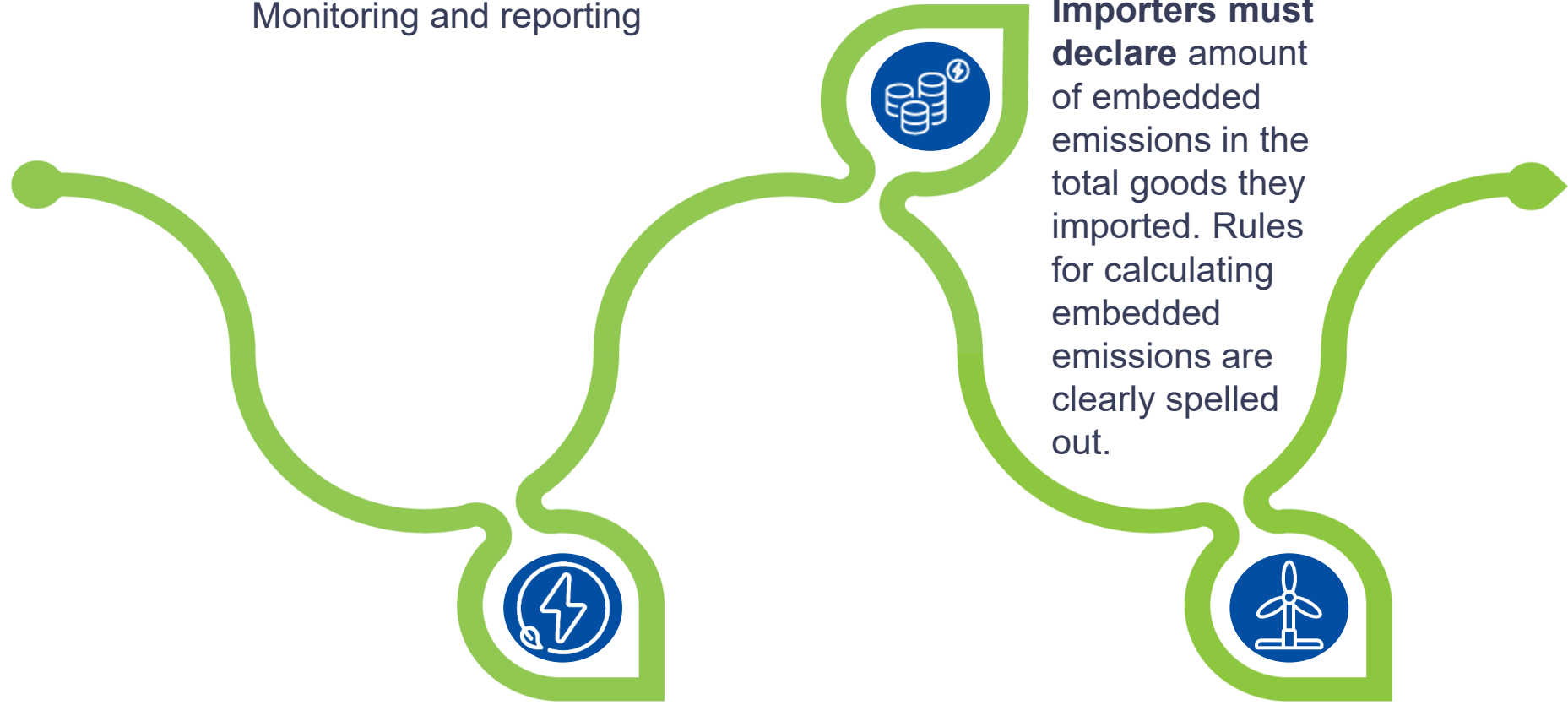
Transitional phase 2023-25

Monitoring and reporting

Post transitional phase 2026 onwards

Importers must declare amount of embedded emissions in the total goods they imported. Rules for calculating embedded emissions are clearly spelled out.

Gradual phase-in
to allow businesses to adjust



An internationally open mechanism

CBAM is open to and incentivises decarbonisation efforts in third countries and favours international coordination thanks to a five-tier system:

1. Actual Emissions methodology
2. Countries applying EU ETS or linked to it will be excluded
3. Deduction of the carbon price paid in third countries from the adjustment on imported products
4. International agreements on how to take into account carbon price
5. Special rules on electricity for countries whose electricity market is “coupled” with the Union internal market for electricity

Thank you



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