

Carbon Border Adjustment Mechanism

The European Green Deal proposes the introduction of a carbon border adjustment mechanism for selected sectors by 2021, if differences in levels of ambition worldwide persist as the EU increases its climate ambition. The nature of the measure has to be assessed carefully in particular in terms of economic efficiency and legal feasibility, the latter most notably with respect to the EU's international commitments, including World Trade Organisation rules. It would be an alternative to the measures that address the risk of carbon leakage in the EU's Emissions Trading System.

A part of the work will relate to the selection of sectors subject to the border adjustment measure. France has taken a position in favour of a carbon border adjustment on the steel and cement sectors. Spain and probably some Baltic countries would support a carbon border adjustment on electricity production.

On 4 March, the Commission published an inception impact assessment on its 'Better regulation – have your say' portal. It received 219 contributions from diverse stakeholders (see background).

The Commission will conduct a full-fledged impact assessment of a carbon border-adjustment mechanism in 2020. A public consultation, expected to be launched still in July, will provide evidence for designing the options and assessing the impacts.

Position of ArcelorMittal

Executives of ArcelorMittal have been in contact with the Commission, both at political and at service level during both the current and the previous mandate to express their support for a carbon border adjustment mechanism (CBAM).

In response to the consultation on the inception impact assessment launched by the Commission in March, ArcelorMittal argues that the development of an effective mechanism is essential as a basis for the transition to climate neutrality of steel production in Europe and a crucial cornerstone of European Green Deal success.

In line with the views of the European Steel Association (EUROFER), ArcelorMittal has emphasised that avoiding the risk of carbon leakage is a pre-condition for preserving both the environmental integrity of EU climate policy and industrial competitiveness. While free allocation in the EU Emissions Trading System (ETS) is designed mainly to address the risk of production relocation, a carbon border adjustment measure can be an effective instrument to address structurally the emissions embedded in imports.

*Through EUROFER, ArcelorMittal has further argued that a carbon border adjustment mechanism should be carefully designed and **implemented initially as a complementary provision**, in addition to the existing measures addressing carbon leakage (free allocation of allowances and compensation for indirect costs due to the increase in electricity prices). The measure should take into account both direct and indirect costs of the EU ETS and should apply initially only to selected sectors. In the case of steel, the measure could initially apply only to steel finished and semi-finished products (e.g. coils, slabs, plates, bars, billets) and then be extended to steel input materials.*

Main messages

- The EU's objective is to become climate neutral by 2050. As long as our international partners do not share the same ambition as the EU, there is a risk of carbon leakage, either because production is transferred from the EU to other countries with lower ambition for emission reduction, or because EU products are replaced by more carbon-intensive imports.

- The primary purpose of a Carbon Border Adjustment Mechanism is to allow carrying out ambitious climate policies, while preventing carbon leakage. The Carbon Border Adjustment Mechanism is an **alternative instrument** to the free allocation in the Emissions Trading System.
- Reducing greenhouse gas emissions requires effort and investments. In case our partners around the world do not engage in policies as ambitious as those of the EU, as the EU increases its climate ambition, a carbon border adjustment would ensure that the price of imports reflect more accurately their carbon content.
- **We will make a proposal for a Carbon Border Adjustment Mechanism in 2021.** A carbon border tax on imports is one option. Other options exist such as the inclusion of importers in the EU Emissions Trading System.
- We will assess the economic, environmental and social impact of possible measures.
- These measures must also be compatible with our international commitments, in particular the rules of the World Trade Organization and our trade agreements.
- We intend to **engage actively with stakeholders and third countries** before introducing the measure. An online public consultation will be launched soon.
- Such measures could first be put in place for **selected sectors**. They will be an **alternative to existing measures** aiming to address the risk of carbon leakage.
- Both the revenues from auctioning under the EU Emissions Trading System and the Carbon Border Adjustment Mechanism have been mentioned in the Next Generation EU package as **possible own resources** for the EU budget.

Defensives

Will you continue to allocate free allowances?

- The **text of the Green Deal is clear in that respect**, asking us to develop a mechanism “alternative to the measures that address the risk of carbon leakage in the EU’s Emissions Trading System”.
- We are currently assessing the possible impacts of increasing the 2030 greenhouse gas emission reduction target, including impacts on the EU Emissions Trading System and on the risk of carbon leakage.
- The Carbon Border Adjustment Mechanism should be **an alternative** to existing measures to counter the risk of carbon leakage, namely the free allowances provided under the EU ETS.
- It is, of course, in our interest to identify a system that will **support our industries without penalising those who have been already investing** to develop cleaner and better performing production processes and products.

Now that a Carbon Border Adjustment Mechanism is identified as a possible own resource, is the “conditionality” clause to its development still relevant?

- As long as differences in climate ambition levels around the world persist as the EU increases its climate ambition, there is a risk of carbon leakage and therefore a risk that climate action at EU level is undermined.
- We continue to monitor progress and work with our partners, while we also continue to prepare a Carbon Border Adjustment Mechanism proposal for adoption in 2021, as announced.

How will you select sectors to which the Carbon Border Adjustment Mechanism may apply?

- In our impact assessment, we will focus on sectors where there is a risk of carbon leakage.

- **Steel** has obviously been part of these sectors.
- We will pay attention to the **feasibility** of the measure as well as its **economic, social and environmental impacts**.

Background

Inception impact assessment feedback

The large majority of the replies comes from the business sector. Trade federations, business associations and individual businesses submitted approximately 150 replies. Of these, about 60 contributions came from energy-intensive industries, mostly steel, chemicals, cement, paper and glass and electricity production. The remaining replies were submitted by approximately 20 NGOs and 20 citizens, while a few think-tanks, academic/research institutions, trade unions and public authorities also sent their comments. Most replies were from EU stakeholders with 24 coming from partners in third countries. Overall, the **majority of replies** (approximately 140) **expressed support for the Carbon Border Adjustment Mechanism**, with the remainder divided (roughly) equally between limited support and no support.

The vast majority of responses expressed **cautiousness in the design of the measure** requesting to consider all options possible. Among others, key areas emphasised included impact on **value chains** and reliance on **imports of raw materials**, avoidance of excessive effects on **final consumers**, links to the **EU Emissions Trading System** and free allowances, **distributional impact** in affected sectors and across countries, especially developing economies and interaction with existing **trade defence measures** on raw materials.

Positive replies further emphasised alternative incentives for low carbon production, while some also proposed **conditionality on increasing domestic carbon price and abolition of free allowances**. Many also stressed that more would be needed to achieve the 2050 climate neutrality goal, including **large investments in new technologies**. In terms of design, some expressed support for **Emissions Trading System extension to imports**, others for **carbon customs duty**, if designed carefully, and some proposed alternatives such as a **tax on added emissions**.

As regards limited or no support replies, some of the main concerns highlighted by stakeholders included:

- The Carbon Border Adjustment Mechanism will **negatively affect free trade** and global supply chains;
- It could result in **import reduction**, which will not necessarily benefit the low carbon producer in the export country;
- Its **effectiveness is questionable** as compared to the global pricing system and public/private funding for Research and Development;
- A Carbon Border Adjustment Mechanism could harm **cross-border electricity infrastructure investment** and thus deployment of renewable energy sources;
- It does not protect the EU economy and is **not in the interest of consumers** and wider society; and
- Existence of **carbon leakage is questionable** and Emissions Trading System costs are minor factors in firms' decisions to move abroad.

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