
Carbon Pricing Hub VI:
The Emissions Trading System and Carbon Border Adjustment Mechanism after the EU elections
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EU Carbon Border Adjustment Mechanism
State of play & Impacts

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Lidia Tamellini, CMW
Aymeric Amand, Sandbag

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Why a CBAM?

From carbon leakage protection to climate diplomacy

When it was proposed:

- Offered further protection to sectors at high risk of carbon leakage
- Allowed for free allocation of allowances in EU ETS to be phased out later for CBAM sectors
- Strongly pushed for by EU industrial groups

How it has changed:

- Challenged in international fora as "protectionist"
- EC now pushing it as climate diplomacy instrument
- Ambivalent view of EU industries
- Not leveraged in latest industrial policy discussions/developments
    - Notable exception: Enrico Letta's internal market report

Scope

CBAM: scope

- Simultaneous phase-in of CBAM (on imports) and phase-out of free allocation (to EU plants)
- About 250 emission intensive product types, in 6 sectors
- Mirrors the coverage of the EU ETS: covers the same processes as the EU ETS in Europe
- Direct emissions only (not from electricity use)
- Some upstream products are excluded:

Product category	Products
Aluminium	Unwrought aluminium, aluminium powders and flakes, and all kinds of aluminium products (including bars, rods, wires, plates, sheets, foils, tubes and pipes, tube and pipe fittings, structures, reservoirs, tanks, casks, drums, cans, boxes, other containers, and cables)
Chemicals	Hydrogen
Cement	Cement clinkers, white Portland cements, other Portland cements, aluminous cements, other hydraulic cements, other kaolinic clays
Electricity	Electrical energy
Fertilisers	Nitric acid, sulphonitric acids, urea, ammonia (anhydrous or in aqueous solutions), nitrates of potassium, mixed fertilisers (nitrogenous mineral and chemical fertilisers, and other fertilisers containing nitrogen, phosphorus and/or potassium)
Iron and Steel	Agglomerated iron ores and concentrates (other than roasted iron pyrites), pig iron, ferrous products obtained by DRI and other spongy ferrous products, crude steel, and all kinds of iron and steel products* (including bars, rods, rails, wires, tubes, pipes, sheets and other flat-rolled products, reservoirs, tanks, casks, drums, cans, boxes, containers, screws, bolts, nuts, hooks, and rivets) – *except certain ferro-alloys (only ferro-manganese, ferro-chromium, and ferro-nickel are covered), and ferrous waste and scrap (including remelting scrap ingots and steel)

Source: Adapted from Annex I of Regulation (EU) 2023/956

State of play

May 2023
Adoption of CBAM final text

October 2023
Start of two-years monitoring period

Q1 2025
Technical amendments to the CBAM Regulation

Q3 2025
Policy amendments to the CBAM Regulation

January 2026
Phase-in of CBAM pricing

State of play

<u>Still to be answered:</u>

- ➢ How to calculate embedded emissions in products?
  - Implementing Act in Q2 2025
- ➢ How will the carbon price paid in the production country be taken into account?
  - Implementing Act in 2025
- ➢ How will the revenues be spent?
  - Own resources proposal, general report in Q3 2025
- ➢ How to ensure LDCs won't be disproportionately affected?

Impacts of the CBAM

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Sandbag Climate Campaign

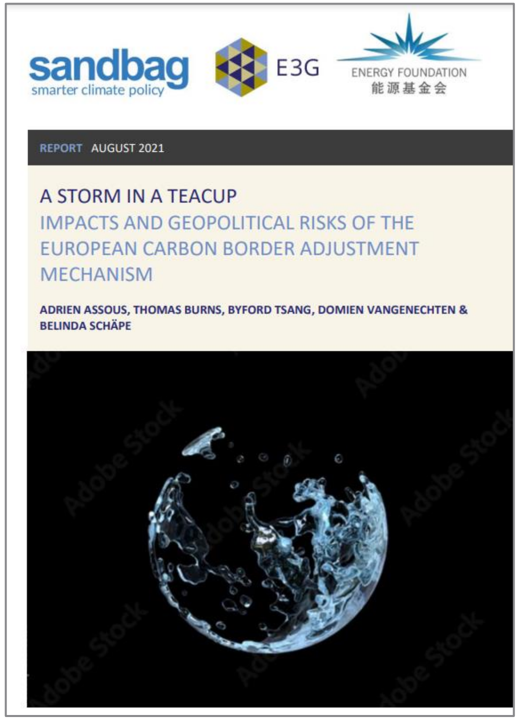
Working on the EU ETS and industrial decarbonisation since 2008, CBAM, climate governance & financing

Data modelling & analysis
(see for e.g. Carbon Price Viewer,
ETS Dashboard, ETS Simulator)

Commission Expert Groups (CBAM, ETS and FAR, Innovation Fund, Aviation in the ETS)

And other platforms/coalitions
(e.g. ECH2A, CCUS Forum, Global & EU steel network)

Technical reports on the CBAM



2021 report with E3G

Exploring legal, administrative and fairness matters

Demonstrated that the impact of the CBAM on EU imports of Chinese goods will be very small due to:

1) narrow sectoral scope

1) 10-year phase-in of the system (only fully operational in 2034), including the transitional period during which no fees are applied

1) proportion of increased costs that will be directly passed on to EU consumers

Technical reports on the CBAM

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2024 report

(updated analysis, following new rules and data)

“Business as usual” scenario

- No change in production process or trade pattern
- Correct application of CBAM charges
- Emission intensity in aluminium and steel are calculated based on figures for primary metallurgy and steel scrap use

“Resource shuffling” scenario

- No major change in production process, but circumvention of CBAM thanks to loophole
- Imported steel products all come from electric furnaces
- Long steel products using 100% scrap, flat steel products using 50/50 scrap/DRI
- Aluminium imports are made from 80% scrap
- Imported cement products are made of 20% clinker

“No reporting” scenario

- Inaccurate reporting/Missing information: CBAM fees are based on default intensity values [cf. based on average country values (JRC study) with a ‘markup’]

A Scrap Game

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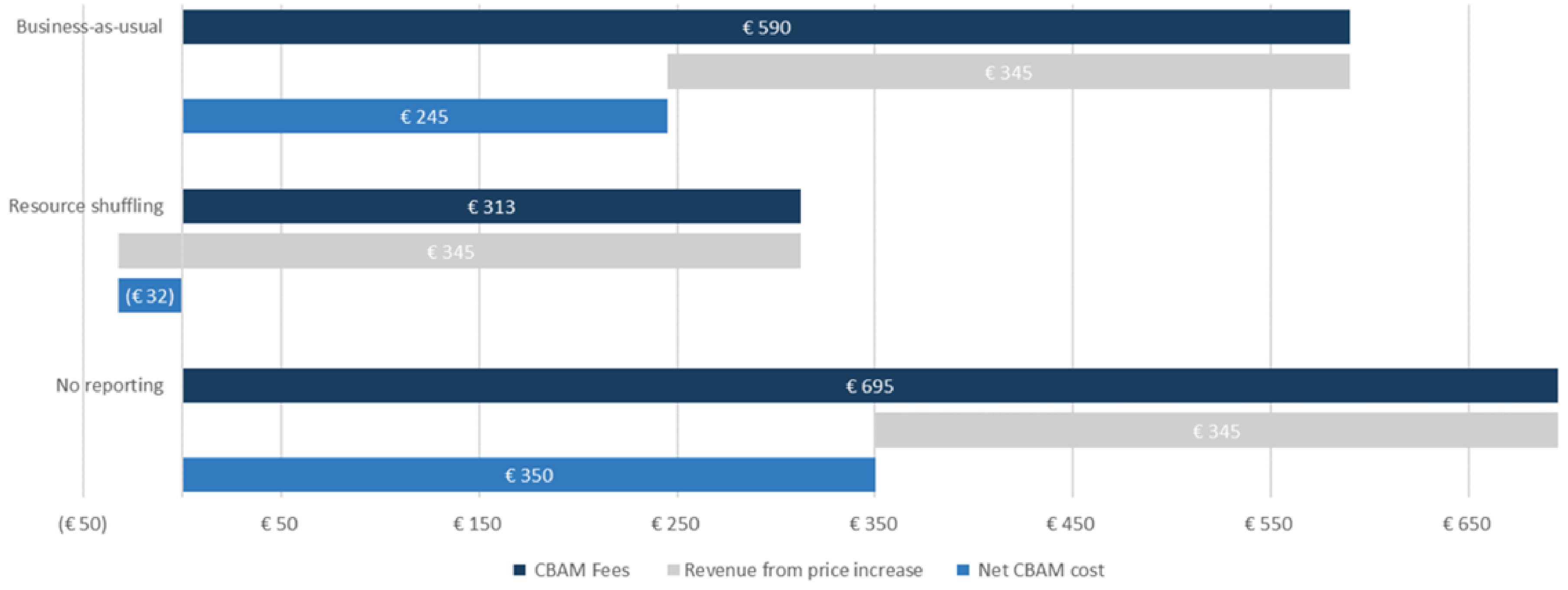
CBAM fees vs. net CBAM costs (for Chinese goods) in € million



(revenue excludes the effect of reduced free allocation in EU already planned regardless of CBAM)

(value of Chinese goods imports into EU in 2021: € 474 billion)

A Scrap Game

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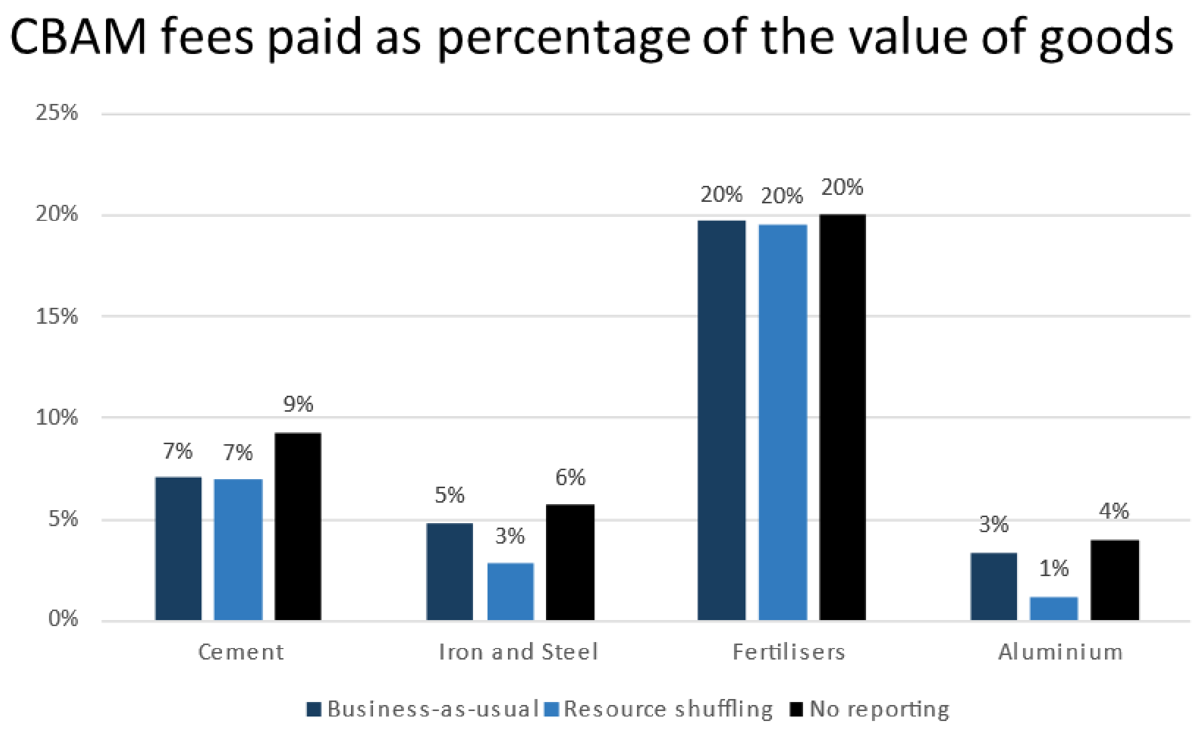
Sector split and timing for Chinese imports



EU imports from China covered by the CBAM Regulation account for €13.4 billion (2.82%) out of the €474 billion worth of EU imports from China (in 2021)

In the “business-as-usual” scenario, CBAM fees represent on average only 0.12% of the total value of imports from China

Country comparison (after full CBAM implementation)

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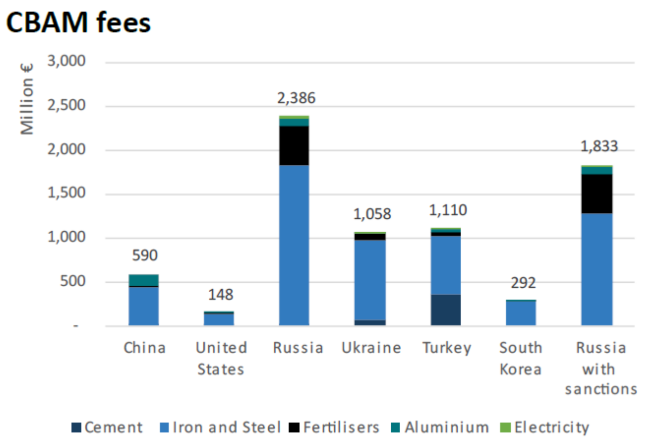
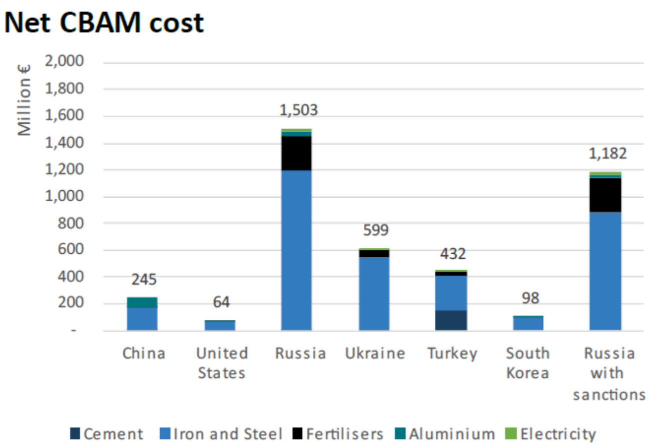
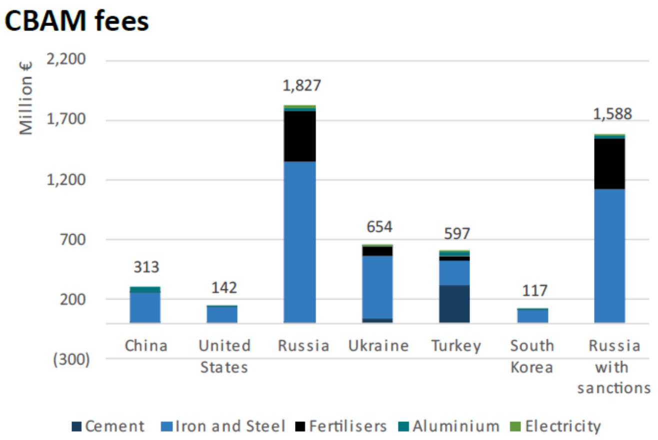
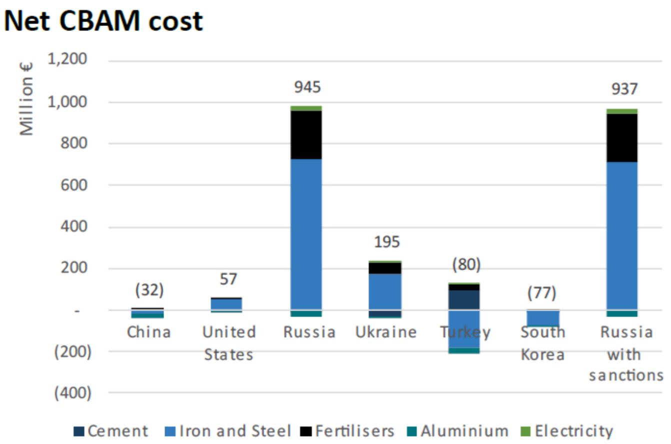
“Business as usual” scenario





“Resource shuffling” scenario





Main takeaways

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- Climate benefit: CBAM will allow the removal of approx. 45-50% free allocation in EU
- CBAM costs for EU trading partners will be relatively limited (not as "bad" as often portrayed outside the EU)
- In fact, under current rules, CBAM may benefit producers in third countries more than EU industry
  = the EU is taking a risk
- But the CBAM is a necessary step to incentivise emission reductions in Europe + internationally

A "game" with no clear winner:

- trade partners may react to the CBAM by minimising costs, may outcompete EU producers
- the CBAM may be adjusted in future to fix potential loopholes, e.g.
  - adding products down the value chain
  - changing rules on scrap content
  - adding sectors…
- EU trade partners can reduce uncertainty by setting up carbon pricing in their home countries

Thank you for your attention!

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Exporting the clean transition or import Protectionism: Can the Carbon Border Adjustment Mechanism make the world greener?

- **Romain Laugier**, Policy Officer
  (European Commission, DG TAXUD)
- **Sara Svensson**, Policy Analyst
  (European Roundtable on Climate Change and Sustainable Transition, ERCST)
- **Niall O'Hare**, Group Strategy and Project Manager (Ecocem)
- **Lidia Tamellini**, Policy Expert on Industrial Decarbonisation
  (Carbon Market Watch)

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Lunch!

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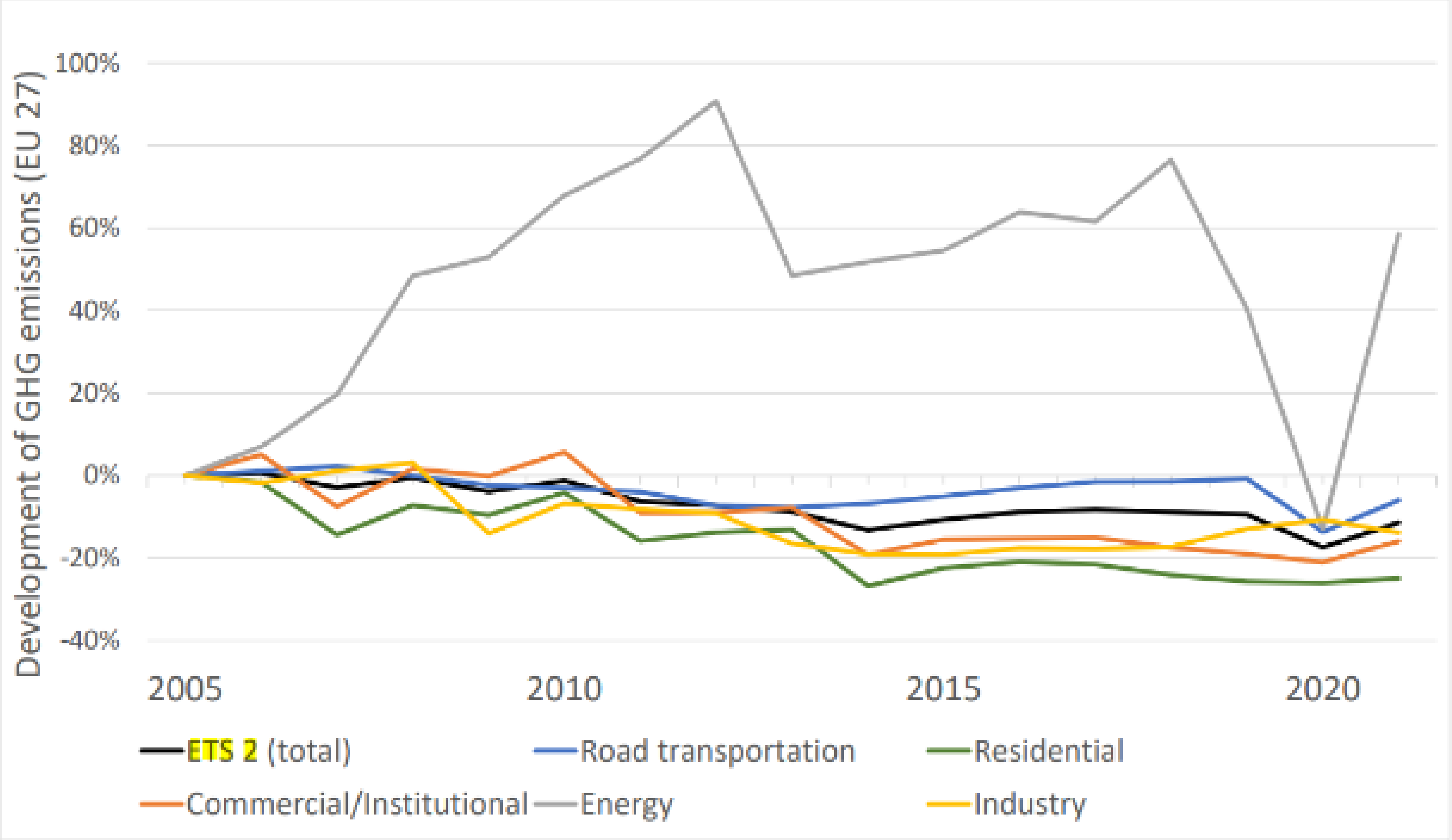
Carbon Pricing Hub
Introduction to ETS2
Emissions trading for Buildings and Road Transport

Eleanor Scott, Carbon Market Watch

What is the ETS2?

- New ETS starting from 2027 (or 2028)
- Covering buildings and road transportation + small scale industry not covered by ETS1
- ETS1+2 = 75% of EU emissions
- Upstream system
- No linking to ETS1
- Countries with higher carbon tax can avoid
- Pressure on MS to implement complementary policies

Emissions by ETS2 Sectors between 2005 and 2020



Source: Öko-Institut with data from EEA (2023a)

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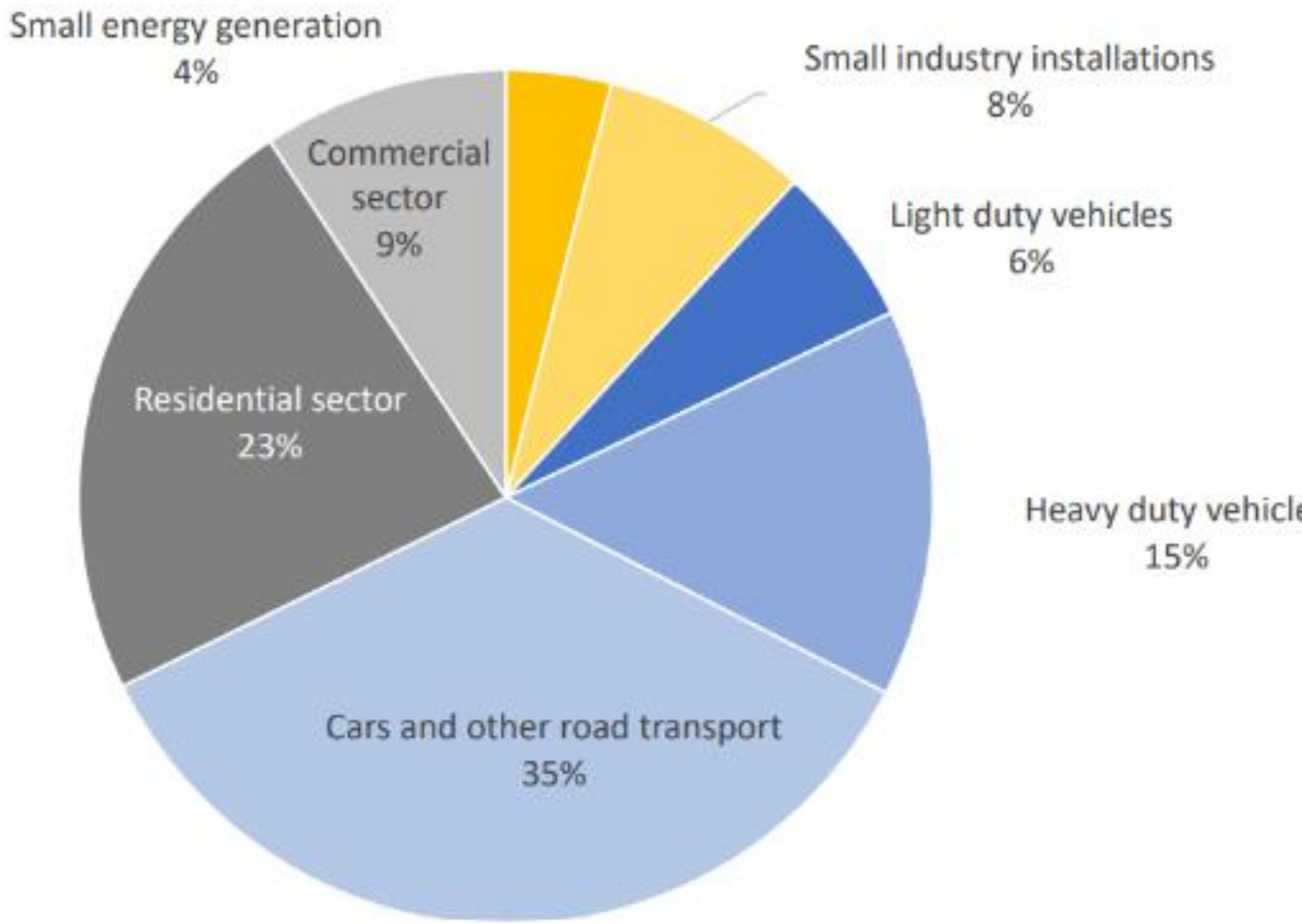
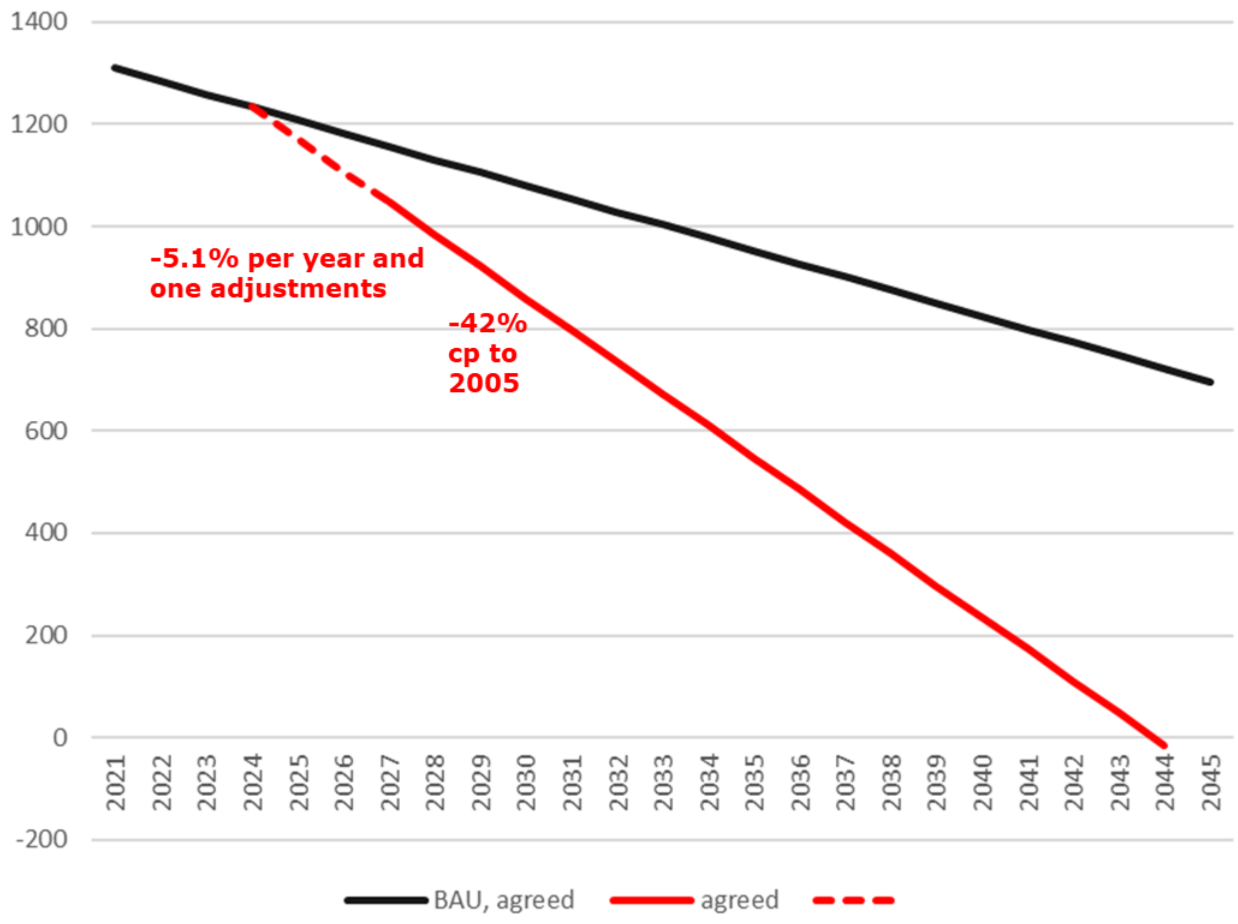
Relative size of ETS2 emissions by sector



Source: Öko-Institute with data from EEA (2023a)

Emissions Reductions Under ETS2



- Current LRF = <u>gross</u> zero by 2044
- Interaction with sectoral policies
- **ETS2 revenue (est.)**
  - **€260 Billion 2026-2032**
    - With avg price of 45 EUR (Öko-Institut -Institut, 2022)

Price containment

- Allocation fully through auctions
- No fixed price or corridor
- 1 Jan 2025 cap is published
- Delayed until 2028 depending on crude oil price Jan 2026
- Frontloaded auction volume (Jan 2027- May 2028)
- 2027-2029 - Soft price ceiling at 45/t, 20m allowances

Challenges

- Levied equally across EU → regressive → energy and transport poverty risk
- Different marginal abatement costs in covered sectors → upfront investment cost
- MS **must** implement complementary policies to decrease pressure
- Balancing the need to provide short term income support with the need for long term investment
- Public support

Opportunities

- Important step to reaching EU climate target
- Rethink energy poverty - tackle underlying reliance on profiteering fossil fuels
- New source of ETS2 revenue earmarked for ‘climate action’
- The SCF created - first EU fund tackling energy/transport poverty - precedent for earmarking funds for social implications of green deal
  - SCF = at least 87.7bln, 2026-2032
  - 150m allowances from ETS2 + 50m from ETS1 → auctioning up until ceiling
  - Remaining revenue - shared among MS → Is it enough?

Thank you!

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Coffee Break!

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