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The European Green Deal, EU ETS & CBAM

Eleanor Batilliet

Project Officer

eleanor.batilliet@agora-industrie.de

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Structure

- 1. The EU rationale for CBAM**
- 2. How will CBAM work?**
- 3. Opportunities for EU trading partners**

Key messages

1

CBAM is a necessary tool to reach the EU's climate ambition (EGD): its primary purpose is protecting the EU from carbon leakage, as its industries transition to climate neutrality. It equalises the CO2 costs of EU domestic production and imports, improving the competitiveness of low carbon options.

2

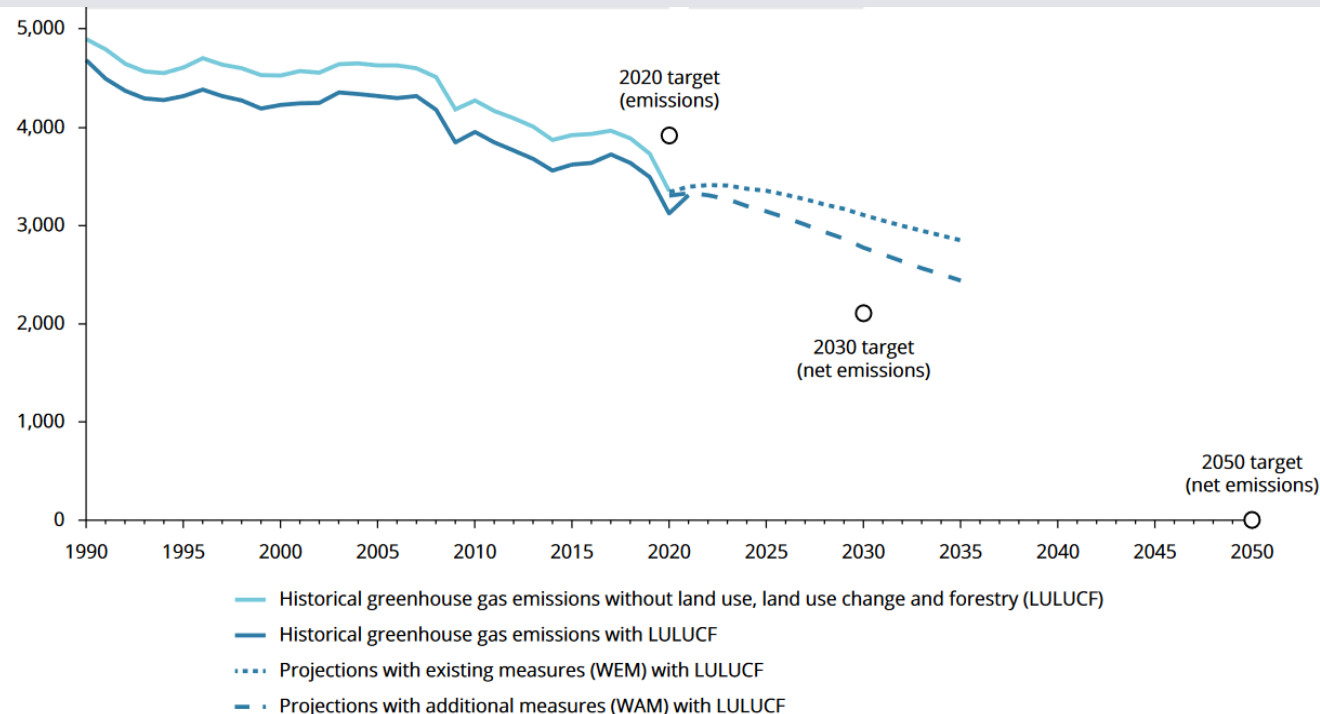
CBAM is not a threat to the Chinese economy, but rather it offers new opportunities: it covers a small share of low value-added products, and the trial and long phase in period familiarises exporters and importers. It incentivises new opportunities for exporters, such as developing emissions reporting systems & extending carbon pricing to other industries to raise revenues domestically, which in turn cover investments into low carbon technologies.

3

CBAM can help incentivise cooperative climate action on carbon leakage internationally: A harmonized global carbon pricing mechanism is unlikely to happen any time soon, but major economies targeting industrial emissions should take the responsibility of creating a fair and just environment for global trade and climate protection.

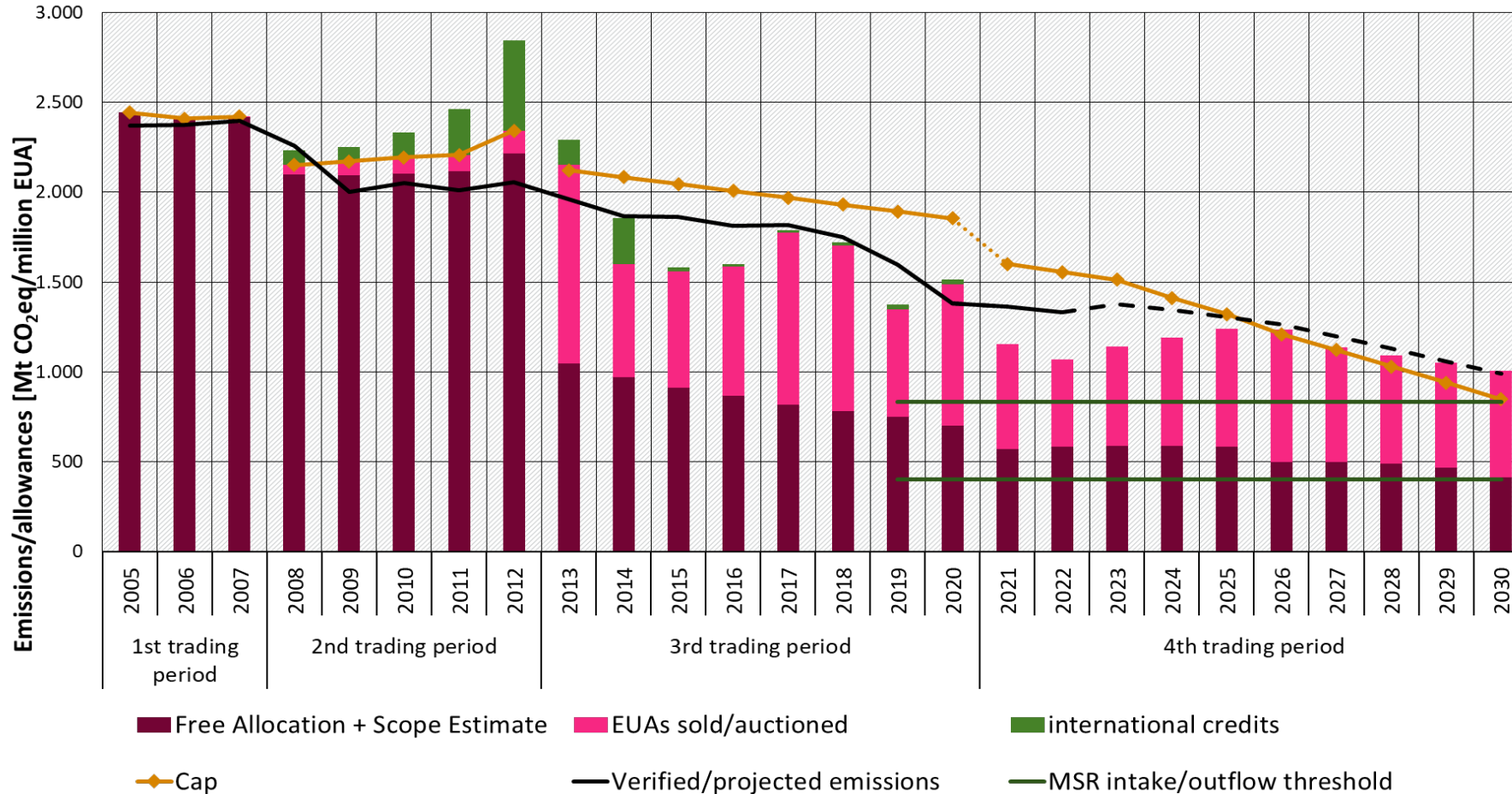
In 2019, the European Commission promised a large increase in the EU's climate ambition: «The European Green Deal »

Emission reduction pathway for the EU Green Deal



- Raise ambition of 2030 targets from -40 % to -55 % GHG emissions reductions (vs. 1990)
- Adopt legally binding sub-targets for 3 “emissions sectors” of economy: ETS sectors, Non-ETS, Land-use
- Introduced over 20 pieces of sectoral legislation including carbon pricing reforms and CBAM.

Overview of the EU ETS 1: Declining emissions, progressive shift from free allocation to auctioning of allowances, increasing sector scope, gradual tightening of allowance (over)supply



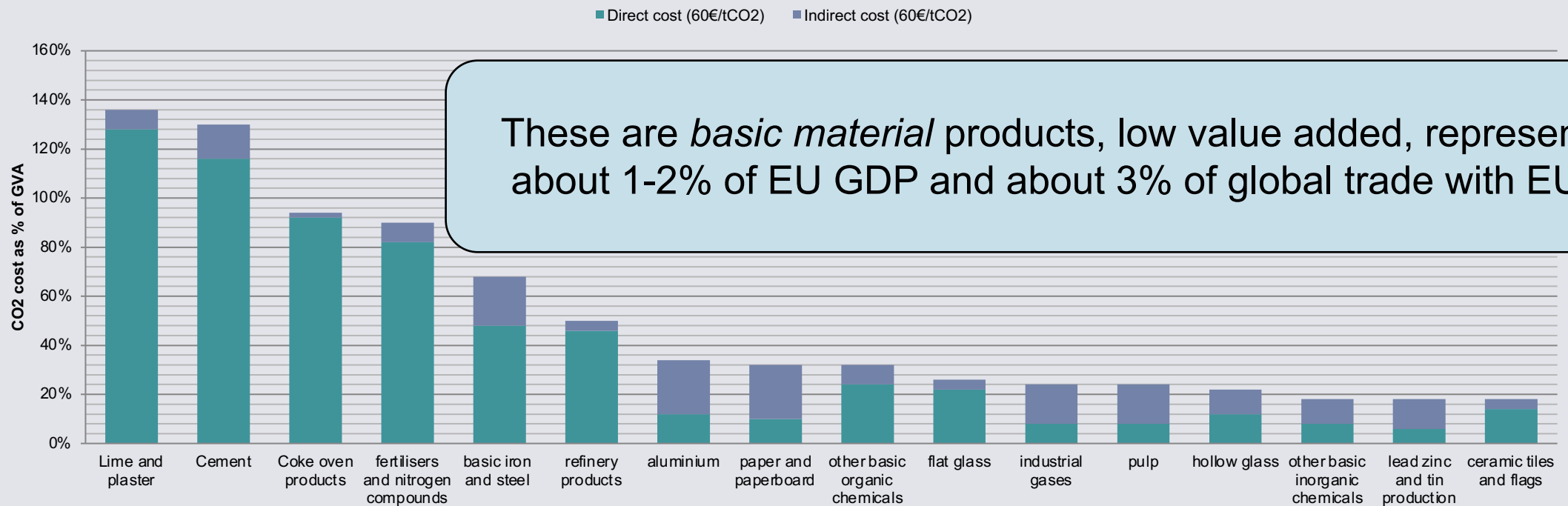
→ New cap on allowances implies -63% total reduction in emissions by 2030 vs 2005 levels

→ A significant change: current cap on allowances aims for -43% by 2030

→ Maritime emissions will be included progressively from 2024

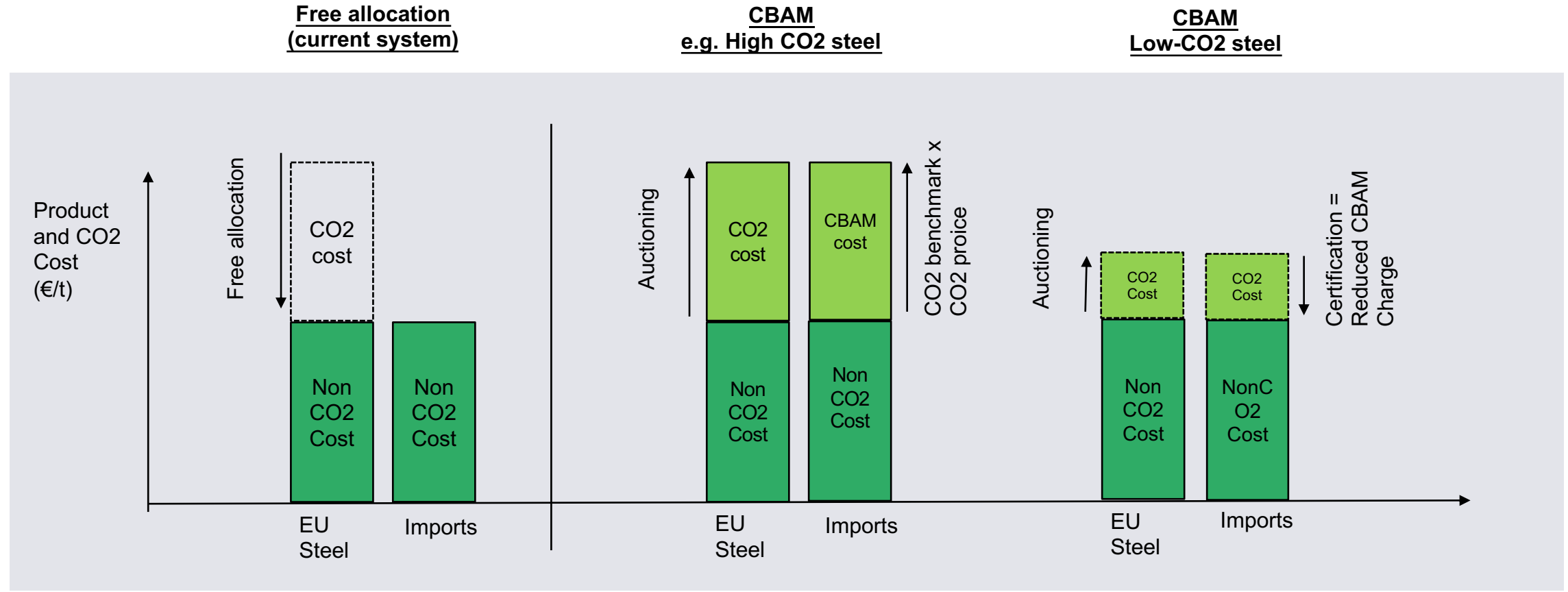
At higher carbon prices, CO2 costs can become a large share of production costs for a small subset of very energy-intensive industries: risk of « carbon leakage »

Carbon costs as a % of gross value added at 60€/tCO2



Additional cost of low carbon technologies (in €/tCO2)

A WTO-compatible CBAM offers to replace free allocation & allow EU and foreign products to compete in EU market based on CO2 efficiency



Source: Agora Industrie (2023)

Products to be covered by CBAM (initially) CBAM

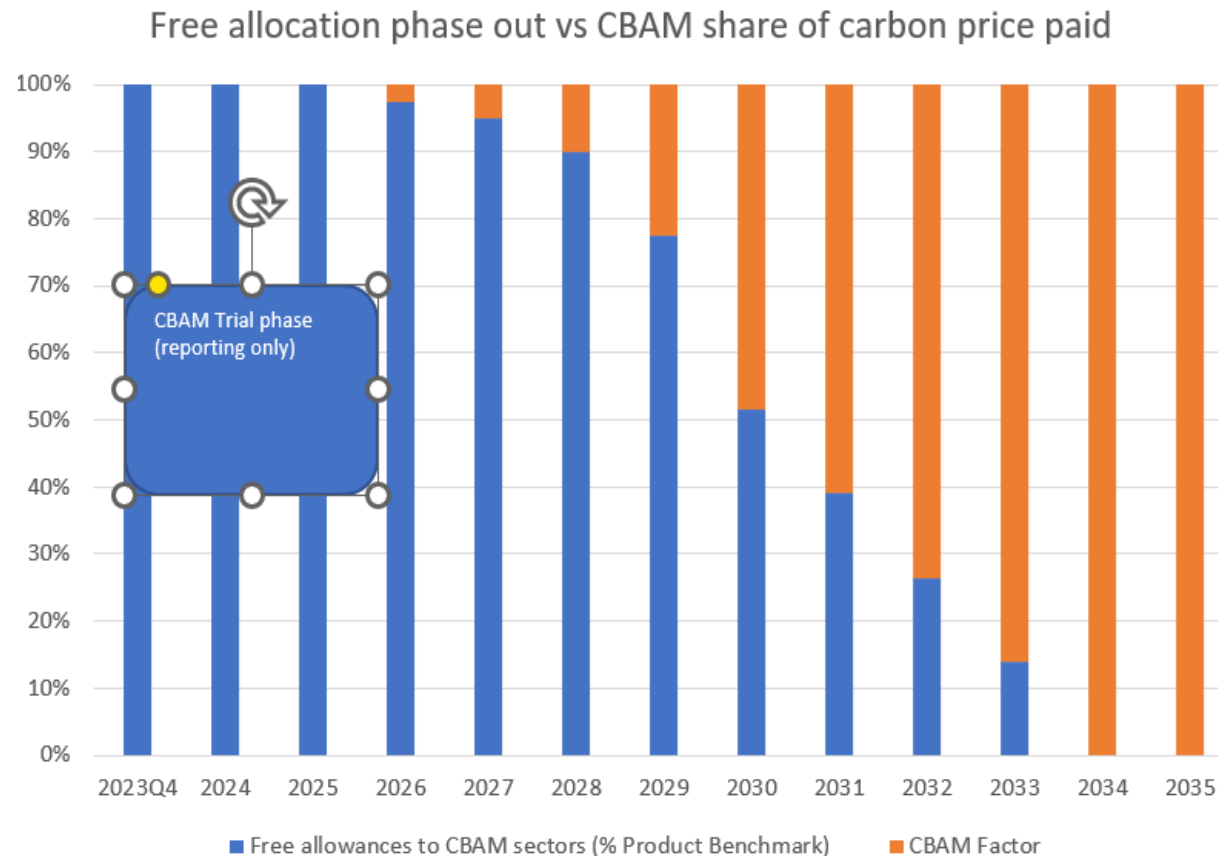
- Cement, clinker and concrete
- Ammonia, fertilisers and nitric acid
- Iron, steel and some semi-finished steel products
- Aluminium and some semi-finished products
- Hydrogen
- Electricity

From 2030, other EU ETS sectors could be gradually included*:

- Ceramic and brick
- Glass
- Pulp, paper and cardboard
- Organic chemicals, polymers
- Non-ferrous metals (e.g. copper)
- Indirect (scope 2) emissions in products (electricity)

*upon proposal by the European Commission

CBAM will phase in gradually, based on principle of equal treatment (non-discrimination) between EU and imports of non-EU products:



- Gradual phase in, including trial phase for data reporting only until 2026
- ETS mirroring system = real emissions used for imports if available, if not, country sectoral average will be used
- Deduction of CO₂ prices paid in countries of origin => poss. to keep revenues at home
- Scope 2 (electricity) emissions included after 2030
- Emphasis on WTO compatibility

Reporting obligations during the CBAM trial phase (Q3-2023 – Q4 2025) 1/2

- Importers of CBAM goods to countries covered by the EU ETS will need to report on the embedded emissions in those goods, or else have those goods assigned the default emissions benchmarks.
- A complete list of CBAM goods is contained in the [CBAM Regulation](#)
- The CBAM [Implementing Regulation](#) details the transitional reporting obligations for EU importers of CBAM goods, as well as the transitional methodology for calculating embedded emissions released during the production process of CBAM goods.
- To help both importers and third country producers, the Commission also published [guidance](#) for EU importers and non-EU installations on the practical implementation of the new rules
- The European Commission is setting up an online reporting tool to facilitate reporting.

Reporting obligations during the CBAM trial phase (Q3-2023 – Q4 2025) 2/2

- The emissions boundaries are mainly Scope 1 and Scope 2 emissions. But in some cases, Scope 3 emissions are also relevant: for instance, if these emitting process steps would be covered by the EU ETS if they occurred in the EU.
- The emissions boundaries are based on what emissions would be covered if the product were produced under the EU ETS scope. This may require development of new MRV systems for importing companies.
- [Guidance](#) on how to do this is contained in the documents released recently by the Commission
- More official information on the EU CBAM Regulation:
- https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#legislative-documents
- [Communication Template for Reporting by Installations: https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en](https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en)

Opportunities and strategies for exporters to exploit/avoid CBAM costs

For Governments

- **Argument for introducing domestic carbon pricing on industrial and energy emissions**
 - The EU CBAM, to be WTO legal, will deduct CO2 prices paid on imported products in the country of origin.
- **Introduce other policies to reduce emissions of exporters of CBAM goods to the EU.**
 - Since CBAM certifications must only be purchased for real emissions, if new techniques and technologies are adopted, costs can be reduced significantly.

For businesses

- **Opportunity to collect high quality data on emissions of industrial companies & improve domestic MRV systems**
 - Real emissions data at the site level are requested by the EU for reporting and compliance.
- **Opportunity to justify investments into climate neutral breakthrough technologies of the future:**
 - e.g. near zero emissions iron and steel making, clean hydrogen and ammonia, clean power, etc.
 - Between EU CBAM and US climate policy, etc, there will be a split in commodity markets between green and grey products.. Every country needs to prepare for this to stay competitive.

Agora Industrie
Anna-Louisa-Karsch-Str. 2
10178 Berlin

T +49 (0)30 700 1435 - 000
F +49 (0)30 700 1435 - 129
www.agora-industrie.de

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The background of the slide is a collage of images related to industrial pipes. On the left, there are stacks of pipes in various colors: grey, blue, and green. On the right, there are stacks of grey pipes, some with a blue coating. The central part of the image is a semi-transparent white area containing text.

**Thank you for your
attention**

For questions and feedback, please contact us:

eleanor.batilliet@agora-industrie.de