Towards a WTO-compatible EU carbon border adjustment mechanism

2020/2043(INI) - 15/02/2021 - Committee report tabled for plenary, single reading

The Committee on the Environment, Public Health and Food Safety adopted an own-initiative report by Yannick JADOT (Greens/EFA, FR) entitled "Towards a WTO-compatible EU carbon border adjustment mechanism".

Members considered that ensuring effective and meaningful carbon pricing, as part of a broader regulatory environment, could provide an incentive to develop production methods with a lower carbon footprint and could stimulate investment in innovation and new technologies.

The report shows that greenhouse gas (GHG) emissions embedded in imports to the EU have been steadily increasing, undermining the EU's efforts to reduce its global carbon footprint. Net imports of goods and services into the EU account for more than 20% of the EU's CO2 emissions.

A WTO-compatible European Carbon Border Adjustment Mechanism (CBAM)

Members supported the establishment of a European carbon border adjustment mechanism, provided it is compatible with World Trade Organisation (WTO) rules and the EU's free trade agreements (FTAs) and is not misused to enhance protectionism.

By supporting EU and global climate policies towards greenhouse gas neutrality, in line with the Paris Agreement objectives, such a mechanism would reduce global CO2 emissions and prevent carbon leakage. It would also encourage European industries and the EU's trading partners to decarbonise their industries.

According to Members, the introduction of a carbon border adjustment mechanism should be:

- part of a package of legislative measures to ensure the rapid reduction of GHG emissions from EU production and consumption, notably by boosting energy efficiency and the deployment of renewable energies;

- combined with policies to promote investment in low-carbon industrial processes, including through innovative financing tools and an environmentally ambitious and socially fair European industrial policy to steer Europe's decarbonised reindustrialisation.

Connection with the revision of the EU Emissions Trading Scheme (EU ETS)

The report called for consideration of the modalities for the design of a border carbon adjustment mechanism coupled with the revision of the EU ETS, so as to ensure complementarity and consistency. To prevent possible distortions in the internal market and along the value chain, the mechanism should cover all products imported under the EU Emissions Trading Scheme (EU ETS), including when embedded in intermediate or final products.

The report stressed that, as a starting point (from 2023) and following an impact assessment, the mechanism should cover the power sector and energy-intensive industrial sectors such as cement, steel, aluminium, oil refinery, paper, glass, chemicals and fertilisers, which continue to benefit from significant amounts of free allocations and still account for 94% of the EU's industrial emissions.

Members considered that to address the potential risk of carbon leakage while complying with WTO rules, the mechanism needs to charge the carbon content of imports in a way that mirrors the carbon costs paid by EU producers. Carbon pricing under the mechanism should mirror the dynamic evolution of the price of EU allowances under the EU ETS while ensuring predictability and less volatility in the price of carbon.

Trade-related aspects of a carbon border adjustment mechanism

Members called for the Paris Agreement and its 1.5 goal to become one of the main guiding principles of trade policy, to which all trade initiatives and their policy tools must be adjusted, by including it in, inter alia, free-trade agreements (FTAs) as an essential element.

Stressing that the EU has played a leading role in global climate action, the report encouraged the Commission and Member States to step up their climate diplomacy ahead of and after the adoption of the legislative proposal for a carbon border adjustment mechanism, and to ensure continued dialogue between trading partners to incentivise global climate action.

Fuelling the EU budget as a new own resource

Members backed the Commission's intention to use the revenue generated by the carbon border adjustment mechanism as new own resources for the EU budget. They defended the objective that this resource should be mainly channelled towards the Green Deal and the just transition, with a significant share earmarked for the transition in the poorest countries and those most affected by climate change.