Carbon Border Adjustment Mechanism

2021/0214(COD) - 14/07/2021 - Legislative proposal

PURPOSE: to establish a new border carbon adjustment mechanism to prevent the risk of carbon leakage and support the EU's increased ambition on climate change mitigation.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: as long as significant numbers of the EU's international partners have policy approaches that do not result in the same level of climate ambition as the Union, and differences in the price applied to GHG emissions remain, there is a risk of carbon leakage. Carbon leakage occurs if, for reasons of differing ambitions related to climate policies, businesses in certain industry sectors or subsectors were to transfer production to other countries with less stringent emission constraints or imports from these countries would replace equivalent but less GHG emissions intensive products due to the difference in climate policy.

That would risk undermining the effectiveness of the EU's emission mitigation policies and could also lead to an increase in their total emissions globally, thus jeopardising the reduction of GHG emissions that is urgently needed if the world is to keep the global average temperature to well below 2°C above pre-industrial levels.

Considering these problems, it is necessary to address the problem of reducing GHG emissions in the EU, while at the same avoiding that these emissions reduction efforts are offset globally by emissions increase outside the EU. In this context, a carbon border adjustment mechanism (CBAM) is proposed with the overarching objective of addressing the risk of carbon leakage in order to fight climate change.

The European Green Deal launched a new growth strategy for the EU that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy. The 'European Climate Law' has made the EU's climate neutrality target by 2050 legally binding.

The Commission has presented a **complementary and interconnected set of proposals as part of the 2030 Climate and Energy 'Fit for 55' package** to achieve the greenhouse gas emission reduction target of **at least 55% compared to 1990**. This 'Fit for 55' legislative package is the most comprehensive building block in the efforts to implement the ambitious new 2030 climate target, and all economic sectors and policies will need to make their contribution.

CONTENT: the proposed regulation aims to establish a **Carbon Border Adjustment Mechanism (CBAM)** to take into account the greenhouse gas emissions embedded in goods with a high risk of **carbon leakage, including iron and steel, cement, fertilisers, aluminium and electricity generation**, when imported into the customs territory of the EU.

The CBAM is intended to impose a **charge** on imports which corresponds with the charges imposed on EU domestic industry under the EU ETS. The scheme would start in 2023 with a transition period until 2025, when importers will be subject to significant reporting obligations. It will be phased in gradually.

A **reporting system** will apply as from 2023 for those products with the objective of facilitating a smooth roll out and to facilitate dialogue with third countries, and importers will start paying a financial adjustment in 2026.

The CBAM will mirror the ETS in the sense that the system is based on the **purchase of certificates by importers**. Iporters of the goods will have to, either individually or through a representative, register with national authorities where they can also buy CBAM certificates.

Once the definitive system becomes **fully operational in 2026**, EU importers will have to declare annually, by 31 May of each year, the quantity of goods and the amount of embedded emissions in the total goods they imported into the EU in the preceding year, and surrender the corresponding amount of CBAM certificates.

Budgetary implications

In order to finance the mechanism, the Commission will be able to borrow up to EUR 750 billion on financial markets. In that context, the European Parliament, the Council and the Commission agreed that the Institutions will work towards introducing sufficient new own resources with a view to covering an amount corresponding to the expected expenditure related to the repayment of NextGenerationEU. The Commission committed to put forward proposals on new own resources, which would include the CBAM in the first semester of 2021.