

Carbon Border Adjustment Mechanism

2021/0214(COD) - 24/05/2022 - Committee report tabled for plenary, 1st reading/single reading

The Committee on the Environment, Public Health and Food Safety adopted the report by Mohammed CHAHIM (S&D, NL) on the proposal for a regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism.

The committee recommended that the European Parliament's position adopted at first reading under the ordinary legislative procedure should be amended as follows:

Objective of the regulation

Members specified that the regulation establishes a **carbon border adjustment mechanism** (CBAM) to address the intrinsic greenhouse gas emissions of Annex I goods when imported into the customs territory of the Union in order to reduce global carbon emissions and to support the implementation of the objectives of the Paris Agreement by preventing any potential risk of carbon leakage outside the Union as well as to encourage emission reductions in third countries.

Broader scope of CBAM

Members proposed to broaden the scope of the proposal to cover **organic chemicals, hydrogen and plastics, as well as indirect emissions** such as those generated by electricity used for manufacturing, heating or cooling in all sectors covered by the CBAM.

Phasing in CBAM and ending free allowances in the EU ETS

While the European Commission proposed that the CBAM should not become fully operational until the beginning of 2036, Members consider that it should **apply from 1 January 2023 with a transitional period until the end of 2024** and that it should be fully implemented for all EU ETS sectors **by 2030**.

Until 31 December 2030, the manufacture of Annex I goods would benefit from free allocation of allowances in reduced quantities. A CBAM reducing the allocation of allowances for the manufacture of these goods would be applied. The CBAM would be 100% for the period 1 January 2023 to 31 December 2024, 90% in 2025, 80% in 2026, 70% in 2027, 50% in 2028, 25% in 2029 and 0% in 2030.

Each year from 2025 onwards, as part of its annual report to the European Parliament and the Council under Directive 2003/87/EC, the Commission should assess the effectiveness of the CBAM in addressing the risk of carbon leakage for goods produced in the EU and destined for export to third countries that do not apply the EU ETS or a similar carbon pricing mechanism.

Centralised EU CBAM authority

Members considered that instead of a decentralised hybrid system with 27 CBAM competent authorities, there should be one centralised EU CBAM authority, which would be more efficient, transparent and cost effective.

Revenue generated by the sale of CBAM certificates

While the revenues generated from the sale of CBAM certificates would be included in the EU budget as general revenue, the EU should **finance the efforts of the least developed countries** to decarbonise their

manufacturing industries with an annual amount at least equal to the level of revenue generated from the sale of CBAM certificates.

This funding should be accompanied by technical assistance, subject to the full implementation and enforcement of internationally recognised social and labour rights, such as the core labour standards of the International Labour Organisation, in the recipient country.

Sanctions

The CBAM should be carefully designed and **supervised by the CBAM authority and customs authorities**, *inter alia*, to prevent, identify and penalise any type of practice of circumvention, including abuse or fraud.

The amount of the penalties for authorised declarants who fail to surrender, by 31 May each year, a number of CBAM certificates corresponding to the emissions embedded in goods imported during the previous year or who submit false information related to embedded emissions to the CBAM authority with a view to obtaining a favourable individual treatment should be equivalent to three times the average price of CBAM certificates in the previous year for each CBAM certificate that the authorised declarant did not surrender.

In the case of repeated offences, the CBAM authority may decide to suspend the CBAM account of the authorised declarant.

Appeals against decisions taken by the CBAM authority

Parties affected by decisions of the MACF authority should have access to the necessary appeal procedures. It is therefore proposed to establish an appropriate appeal mechanism so that decisions of the CBAM authority can be appealed before a Board of Appeal, whose decisions would be subject to appeal to the Court of Justice of the European Union.