Carbon Border Adjustment Mechanism

2021/0214(COD) - 22/06/2022 - Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament adopted by 450 votes to 115, with 55 abstentions, **amendments** to the proposal for a regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism (CBAM).

The matter was referred back to the committee responsible for inter-institutional negotiations.

The main amendments adopted in plenary are as follows:

Broader CBAM scope

In addition to the products proposed by the Commission, Parliament wants the CBAM to cover **organic chemicals, plastics, hydrogen and ammonia**. Members also want to extend CBAM to include **indirect emissions**, i.e. emissions deriving from the electricity used by manufacturers, heating or cooling, in order to strengthen the climate ambition of the proposal.

A Commission report would also assess the technical specificities of calculating embedded emissions for organic chemicals and polymers, their value chains and the ability of the mechanism to sufficiently address the risk of carbon leakage for these sectors. On the basis of this report, the Commission could, if appropriate, present a legislative proposal to adapt the CBAM.

Phasing in CBAM and ending free allowances in the EU ETS

The CBAM would apply **from 1 January 2023 with a transition period until the end of 2026** and the Parliament believes that it should be fully implemented for the EU ETS sectors by 2032. Until 2032, exporters should receive free allocations - 100% in the period 2023-2026, 93% in 2027, 84% in 2028, 69% in 2029, 50% in 2030 and 25% in 2031, finally reaching 0% in 2032.

In order to ensure a level playing field, the production in the Union of goods listed in Annex I of the Regulation would continue to be allocated allowances free of charge, provided that these goods are produced for export to third countries that do not have a carbon pricing mechanism equivalent to the EU ETS.

By 31 December 2025, the Commission should present a report with a detailed assessment of the effects of the EU ETS and CBAM on the EU production of products covered by CBAM and exported outside the EU, on the development of global emissions and on the WTO-compatibility of the export derogation.

Centralised EU CBAM authority

While the Commission proposal foresees a decentralised hybrid system with 27 CBAM competent authorities, Parliament believes there should be one centralised EU CBAM authority, which would be more efficient, transparent and cost effective. This would also help to combat forum shopping from importers.

Revenue generated by the sale of CBAM certificates

Parliament wants the revenues generated by the sale of CBAM certificates to **go to the EU budget**.

In order for the CBAM to achieve its objective of reducing global carbon emissions and contribute to the EU's climate objectives and international commitments, including the Paris Agreement, 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 by the sale of CBAM certificates.

The Commission should regularly monitor any changes in trade flows from Least Developed Countries due to the CBAM in order to assess the effectiveness of the Regulation, including its contribution to preventing carbon leakage and its impact on trade flows between the EU and Least Developed Countries.

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.