



### **Carbon Border Adjustment Mechanism: Questions and Answers**

Brussels, 14 July 2021

#### **Why is the Commission proposing a Carbon Border Adjustment Mechanism?**

The EU is at the forefront of international efforts to fight climate change. The European Green Deal sets out a clear path towards realising the EU's ambitious target of a 55% reduction in carbon emissions compared to 1990 levels by 2030, and to become a climate-neutral continent by 2050.

The July 2021 package in support of the EU's climate targets is an integral part of our strategy to achieve this, and will further seal the EU's reputation as a global climate leader. As part of these efforts, the Carbon Border Adjustment Mechanism (CBAM) is a climate measure that should prevent the risk of carbon leakage and support the EU's increased ambition on climate mitigation, while ensuring WTO compatibility.

Climate change is a global problem that needs global solutions. As we raise our own climate ambition and less stringent environmental and climate policies prevail in non-EU countries, there is a strong risk of so-called 'carbon leakage' – i.e. companies based in the EU could move carbon-intensive production abroad to take advantage of lax standards, or EU products could be replaced by more carbon-intensive imports. Such carbon leakage can shift emissions outside of Europe and therefore seriously undermine EU and global climate efforts. The CBAM will equalise the price of carbon between domestic products and imports and ensure that the EU's climate objectives are not undermined by production relocating to countries with less ambitious policies.

#### **What is the Carbon Border Adjustment Mechanism?**

Designed in compliance with World Trade Organization (WTO) rules and other international obligations of the EU, the CBAM system will work as follows: EU importers will buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules. Conversely, once a non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in a third country, the corresponding cost can be fully deducted for the EU importer. The CBAM will help reduce the risk of carbon leakage by encouraging producers in non-EU countries to green their production processes.

Carbon Border Adjustment Mechanisms are already in place in some regions around the world, such as California, where an adjustment is applied to certain imports of electricity. A number of countries such as Canada and Japan are planning similar initiatives. In addition, the IMF and the OECD have recently carried out work to study how such measures could support international efforts to reduce greenhouse gas emissions. In the [communiqué following their meeting of 9-10 July 2021](#), G20 Finance Ministers also mentioned the need for closer international coordination on the use of carbon pricing mechanisms.

To provide businesses and other countries with legal certainty and stability, the Carbon Border Adjustment Mechanism will be phased in gradually and will initially apply only to a selected number of goods at high risk of carbon leakage: iron and steel, cement, fertiliser, aluminium and electricity generation. 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.

Finally, as a potential EU own resource, revenues from CBAM will contribute to the EU's budget, as laid out in the December 2020 Interinstitutional Agreement on budget and own resources.

#### **Isn't carbon leakage already addressed by the Emissions Trading System?**

The EU's Emissions Trading System (ETS) is the world's first international emissions trading scheme and the EU's flagship policy to combat climate change. It sets a cap on the amount of greenhouse

gas emissions that can be released from industrial installations in certain sectors. Allowances must be bought on the ETS trading market, though a certain number of free allowances is distributed to prevent carbon leakage. That system has been effective in addressing the risk of leakage but it also dampens the incentive to invest in greener production at home and abroad. The CBAM will progressively become an alternative to this. Under the Commission's new proposal for a revised ETS, however, the number of free allowances for all sectors will decline over time so that the ETS can have maximum impact in fulfilling our ambitious climate goals. Furthermore, for the CBAM sectors, the free allowances will gradually be phased out as from 2026.

To complement the ETS, the CBAM will be based on a system of certificates to cover the embedded emissions in products being subsequently imported into the EU. The CBAM departs from the ETS in some limited areas, however, in particular since it is not a 'cap and trade' system. Instead, the CBAM certificates mirrors the ETS price.

To ensure a level playing field between EU and non-EU businesses, and once the full CBAM regime becomes operational in 2026, the system will adjust to reflect the revised EU ETS, in particular when it comes to the reduction of available free allowances in the sectors covered by the CBAM. This means that the CBAM will only begin to apply to the products covered gradually and in direct proportion to the reduction of free allowances allocated under the ETS for those sectors. Put simply, until they are completely phased out in 2035, the CBAM will apply only to the proportion of emissions that does not benefit from free allowances under the EU ETS, thus ensuring that importers are treated in an even-handed way compared to EU producers.

### **How will the CBAM work in practice?**

The CBAM will mirror the ETS in the sense that the system is based on the purchase of certificates by importers. The price of the certificates will be calculated depending on the weekly average auction price of EU ETS allowances expressed in € / tonne of CO<sub>2</sub> emitted. Importers of the goods will have to, either individually or through a representative, register with national authorities where they can also buy CBAM certificates.

National authorities will authorise registration of declarants in the CBAM system, as well as reviewing and verifying declarations. They will also be responsible for selling CBAM certificates to importers. In order to import goods covered under the CBAM into the EU, they must declare by 31 May each year the quantity of goods and the embedded emissions in those goods imported into the EU in the preceding year. At the same time, they must surrender the CBAM certificates they have purchased in advance from the authorities.

By ensuring importers pay the same carbon price as domestic producers under the EU ETS, CBAM will ensure equal treatment for products made in the EU and imports from elsewhere and avoid carbon leakage.

### **What will happen in the transitional phase?**

Under the Commission's proposal, importers will have to report emissions embedded in their goods without paying a financial adjustment in a transitional phase starting in 2023 and finishing at the end of 2025, giving time for the final system to be put in place.

This transitional phase, combined with the gradual phasing in of CBAM over time, will allow for a careful, predictable and proportionate transition for EU and non-EU businesses as well as authorities. Once the definitive system becomes fully operational in 2026, EU importers will have to declare annually 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.

### **Which sectors will the new mechanism cover and why were they chosen?**

The CBAM will initially apply to imports of the following goods:

- cement
- iron and steel
- aluminium
- fertilisers

- electricity

These sectors have a high risk of carbon leakage and high carbon emissions. The administrative feasibility of covering the sectors in the CBAM from the start was also taken into account.

The CBAM will apply to direct emissions of greenhouse gases emitted during the production process of the products covered. By the end of the transition period, the Commission will evaluate how the CBAM is working and whether to extend its scope to more products and services - including down the value chain, and whether to cover so-called 'indirect' emissions (i.e. carbon emissions from the electricity used to produce the good).

### **How can EU importers ensure that they get the information they need from their non-EU exporters to be able to use the new system correctly?**

The information on embedded emissions for goods subject to CBAM should be communicated to importers registered in the EU by their non-EU producers. In cases where this information is not available as the goods are being imported, EU importers will be able to use default values (even once the definitive system has kicked in) on CO<sub>2</sub> emissions for each product to determine the number of certificates they need to purchase. Importers will nevertheless be able to demonstrate actual emissions during a reconciliation procedure, and surrender the appropriate number of CBAM certificates accordingly.

### **Who will fall under the scope of the CBAM?**

In principle, imports of goods from all non-EU countries will be covered by the CBAM. That said, certain third countries who participate in the ETS or have an emission trading system linked to the Union's will be excluded from the mechanism. This is the case for members of the European Economic Area and Switzerland.

CBAM will be applied to electricity generated in and imported from countries that wish to integrate their electricity markets with the EU until such a point that those electricity markets are fully integrated. At that point, and under strict conditions linked to their implementation of certain obligations and commitments, these countries could be exempted from the mechanism. If that is the case, the EU will revisit any exemptions granted in 2030, at which point those partners should have put in place the decarbonisation measures they have committed to, and an emissions trading system equivalent to the EU's.

### **Who have you consulted on the proposed CBAM and how will you engage with third countries?**

In preparing this proposal, the Commission consulted stakeholders widely, both through an open public consultation and more targeted consultations. In addition, the Commission engaged in extensive bilateral consultations with public authorities in EU and non-EU countries, business associations, individual companies and NGOs. Targeted consultations were also undertaken with senior managers and associations from the basic materials sectors, manufacturers, NGOs and policymakers.

Dialogue with third countries will continue in multilateral fora and bilateral relations. As CBAM aims to encourage cleaner production processes, the EU also stands ready to work with low and middle income countries towards the decarbonisation of their manufacturing industries. The Union will also support less developed countries with the necessary technical assistance.

To provide businesses and other countries with legal certainty and stability, the CBAM will be phased in gradually and will initially apply only to a selected number of goods at high risk of carbon leakage.

### **For More Information**

[Communication: fit for 55 delivering EU's 2030 climate targets](#)

[Website Delivering the European Green Deal](#) (including legislative proposals)

[Website with Audio-visual material on the proposals](#)

[Press release: European Green Deal: Commission proposes transformation of EU economy and society to meet climate ambitions](#)

[Q&A on the Revision of the Energy Taxation Directive](#)

[Q&A on EU Emissions Trading System](#)

[Q&A on The Effort sharing and Land-use, Forestry and Agriculture Regulations](#)

[Q&A on Making our Energy Systems fit for our Climate Targets](#)

[Q&A on Sustainable Transport Infrastructure and Fuels](#)

[Architecture of the package Factsheet](#)

[Socially fair transition Factsheet](#)

[Nature and Forests Factsheet](#)

[Transport Factsheet](#)

[Energy Factsheet](#)

[Buildings Factsheet](#)

[Industry Factsheet](#)

[Hydrogen Factsheet](#)

[Carbon Border Adjustment Mechanism Factsheet](#)

[Making Energy Taxation Greener Factsheet](#)

[Brochure on Delivering the European Green Deal](#)

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