
What is CBAM, why has it come to be?

INETTT BETD24 Side Event

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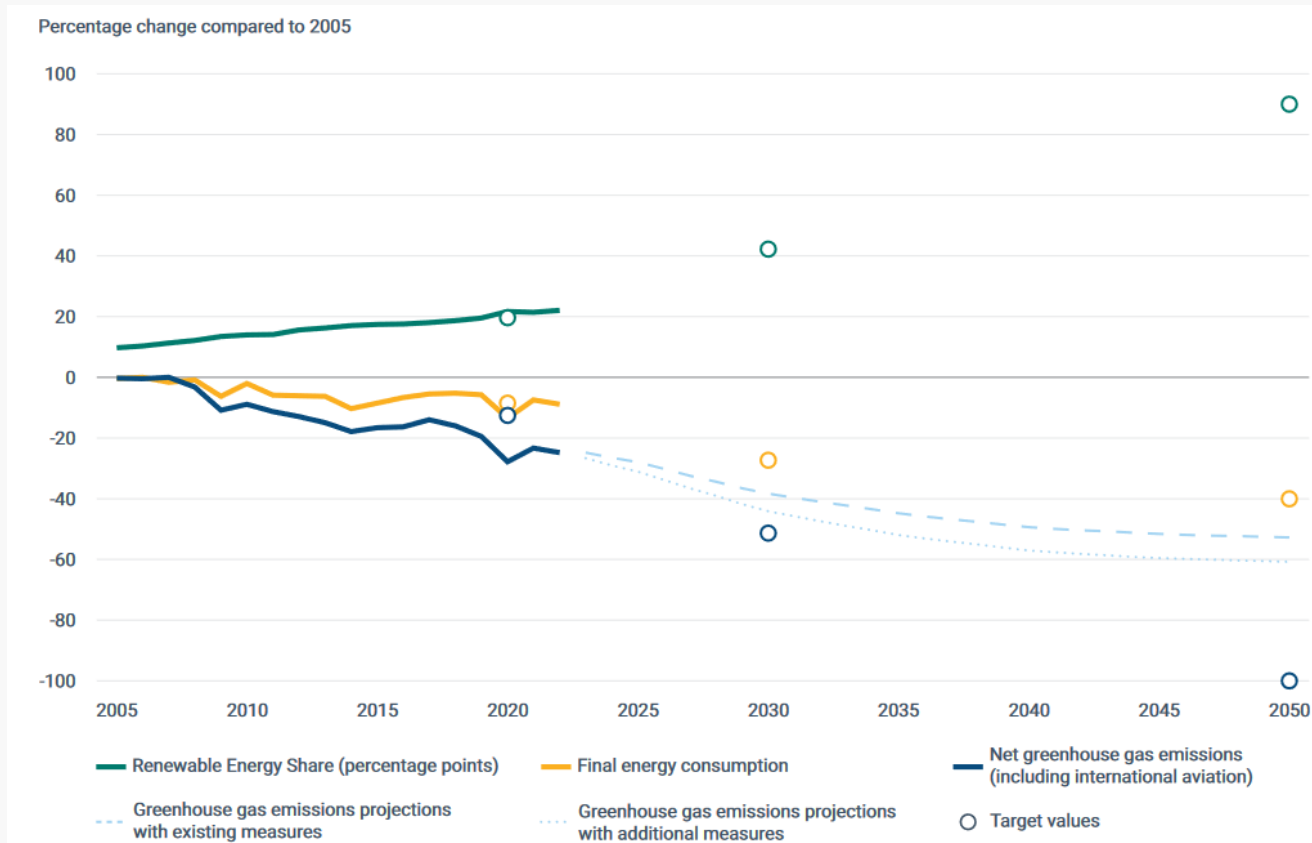
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The EU rationale for CBAM

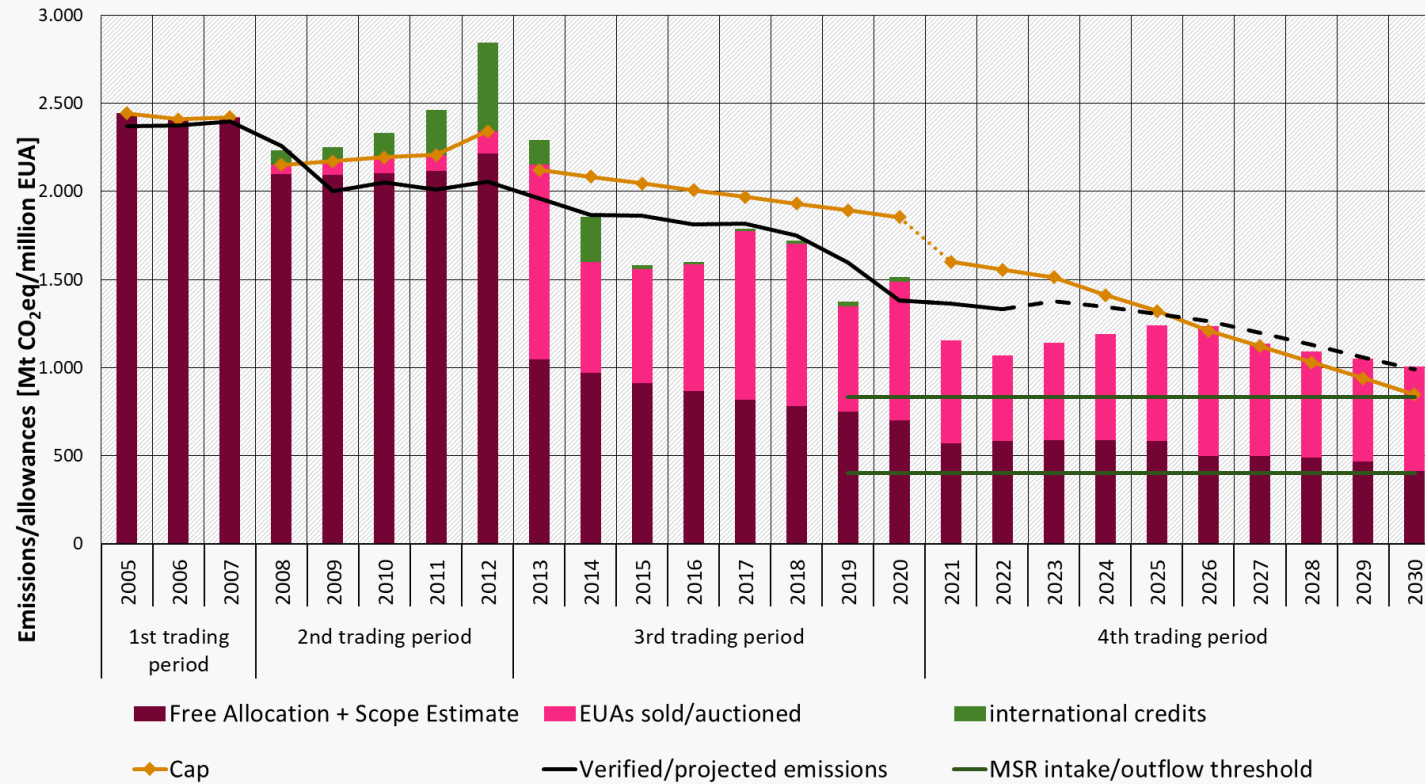
In 2019, the European Commission promised a large increase in the EU's climate ambition: «The European Green Deal »

Emission reduction pathway for the EU Green Deal



- Raise ambition of 2030 targets from -40 % to -55 % GHG emissions reductions (vs. 1990)
- Adopt legally binding sub-targets for 3 “emissions sectors” of economy: ETS sectors, Non-ETS, Land-use
- Introduced over 20 pieces of sectoral legislation including carbon pricing reforms and CBAM

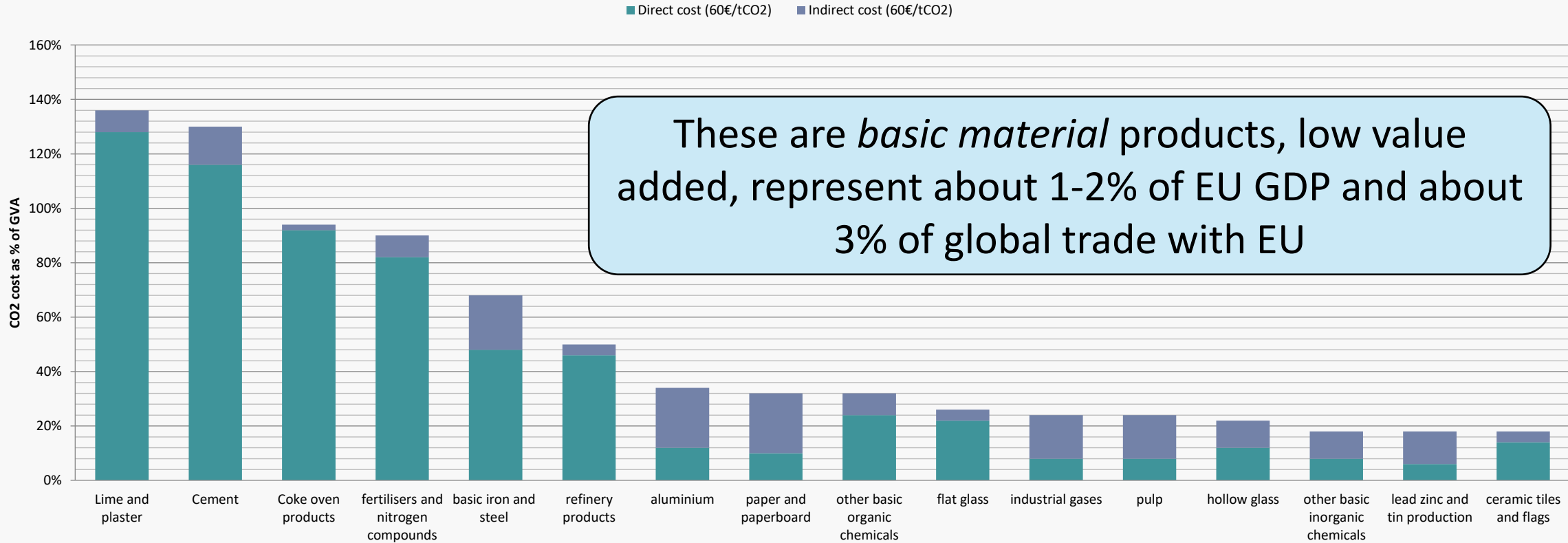
Overview of the EU ETS 1



- Declining emissions, progressive shift from free allocation to auctioning of allowances, increasing sector scope, gradual tightening of allowance (over) supply
- New cap on allowances implies -63% total reduction in emissions by 2030 vs 2005 levels, compared to -43% in the past
- Maritime emissions will be included progressively from 2024

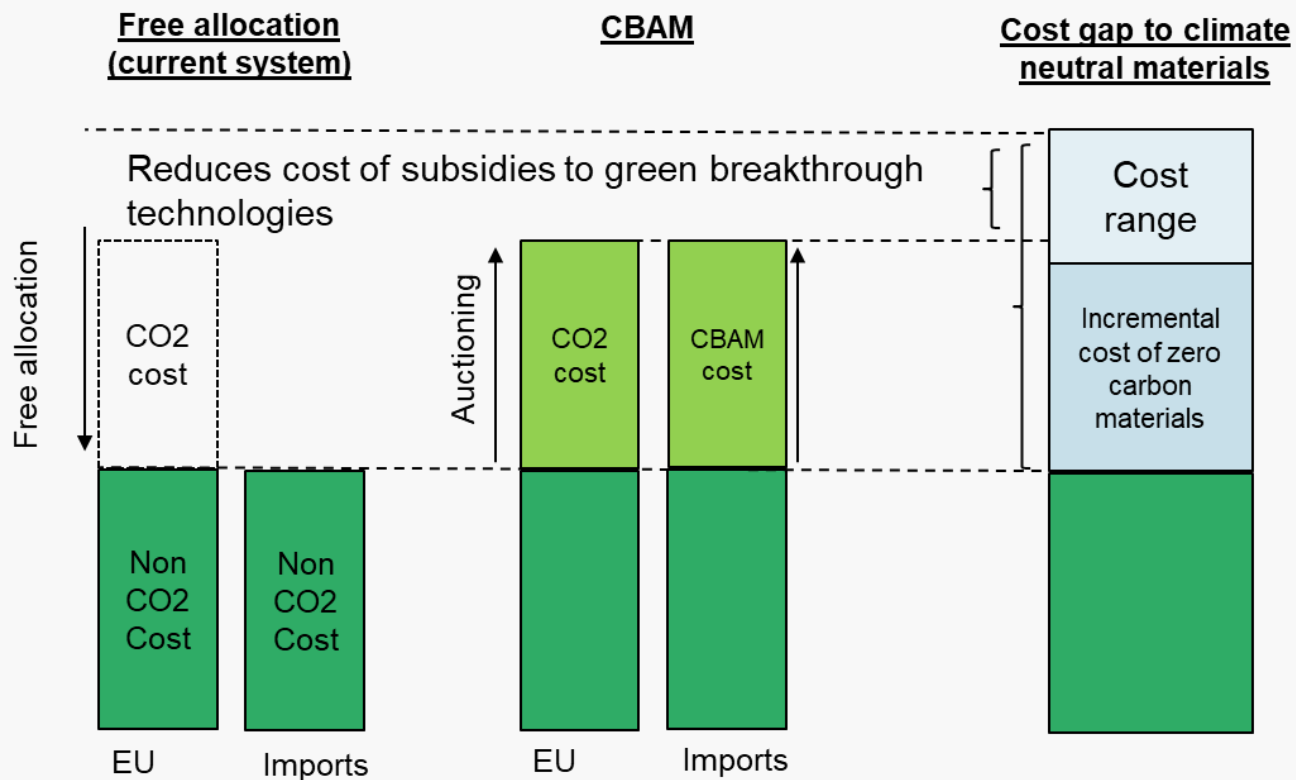
At higher carbon prices, CO2 costs can become a large share of production costs for a small subset of very energy-intensive industries: risk of « carbon leakage »

Carbon costs as a % of gross value added at 60€/tCO2



A WTO-compatible CBAM offers to replace free allocation & allow EU and foreign products to compete in EU market based on CO2 efficiency

Rationale of EU CBAM



CBAM:

- Enables **carbon cost pass-through** and improves competitiveness of low-carbon and circular economy solutions
- **Raises significant funds** to support low-carbon and circular production technologies
- **Sends international signal** for industrial decarbonisation

Products to be covered by CBAM (initially)



Iron, steel and some semi finished products



Cement, clinker and concrete



Aluminium and some semi-finished products



Ammonia, fertilisers and nitric acid

Scope 1 emissions + certain steel „precursors“ (input materials needed for production of material) and semi-finished goods down the value-chains



Hydrogen



Electricity

From 2030, other EU ETS sectors could be gradually included*:

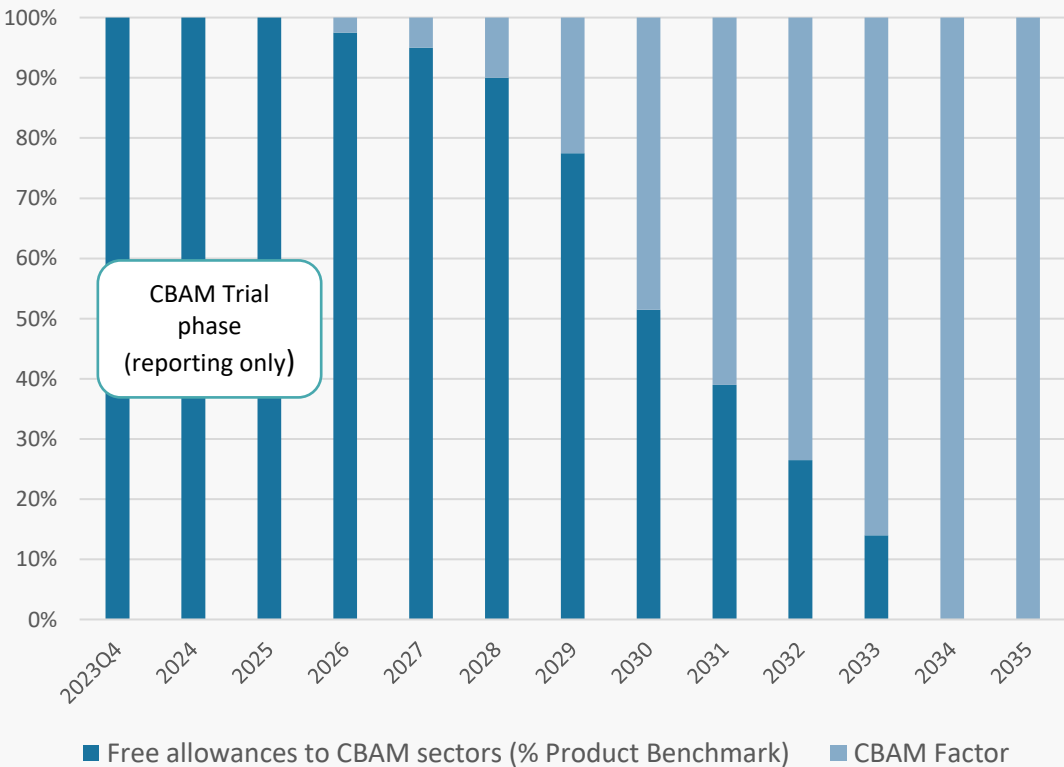
- Ceramic and brick
- Glass
- Pulp, paper and cardboard
- Organic chemicals, polymers
- Non-ferrous metals (e.g. copper)
- Indirect (scope 2) emissions in products (electricity)

*upon proposal by the European Commission

How will CBAM work?

CBAM will phase in gradually, based on principle of equal treatment (non-discrimination) between EU and imports of non-EU products

Free allocation phase-out vs. CBAM share of carbon price paid



- Gradual phase in, including trial phase for data reporting from Oct 2023 until 2026
- ETS mirroring system = real emissions used for imports if available, if not, country sectoral average will be used
- Deduction of effective CO2 prices paid in countries of origin i.e. taking into account free allocation => possible to keep revenues at home
- Scope 2 emissions included after 2030
- In definite period: CBAM certificates surrendered every year by May 31st, price reflects average weekly price of EU ETS allowances

Opportunities for EU trading partners

Opportunities and strategies for exporters to exploit/avoid CBAM costs

For Governments

Argument for introducing **domestic carbon pricing** on industrial and energy emissions

Incentives to introduce **other policies to reduce emissions of exporters of CBAM goods** to the EU.

For businesses

Opportunity to **collect high quality data on emissions** of industrial companies & **improve domestic MRV systems**

- Real emissions data at the site level are requested by the EU for reporting and compliance.

Opportunity to **justify investments into climate neutral breakthrough technologies** of the future:

- e.g. near zero emissions iron and steel making, clean hydrogen and ammonia, clean power, etc.
- Between EU CBAM and US climate policy, etc., there will be a split in commodity markets between green and grey products. Every country needs to prepare for this to stay competitive.

Border carbon adjustments seem to be in development around the world



Sen. Cassidy [appeared on CNN](#) to discuss the introduction of his Foreign Pollution Fee Act of 2023.

Republican Senators introduce foreign pollution fee bill

UK to press ahead with carbon border tax in 2026

Programme would mirror scheme launched by EU



EU launches first phase of world's first carbon border tariff

By Philip Blenkinsop and Kate Abnett

October 2, 2023 5:44 PM GMT+2 · Updated 2 months ago



Vapour pours from a steel mill chimney in the industrial town of Port Kembla, about 80 km (50 miles) south of Sydney July 7, 2011. REUTERS/Tim Wimborne/File Photo [Acquire Licensing Rights](#)



Australia considers CBAM to address carbon leakage

Thank you for
your attention!

Do you have any questions or comments?

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