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COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	15 July 2021
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
Subject:	Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing a carbon border adjustment mechanism - Regulatory scrutiny board opinion

Delegations will find attached document SEC(2021) 564 final.

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EUROPEAN COMMISSION

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REGULATORY SCRUTINY BOARD OPINION

Proposal for a Regulation of the European Parliament and of the Council

Carbon Border Adjustment mechanism

{COM(2021) 564}

{SWD(2021) 643}

{SWD(2021) 644}



EUROPEAN COMMISSION
Regulatory Scrutiny Board

Brussels,
RSB

Opinion

Title: Impact assessment / Carbon Border Adjustment Mechanism

Overall opinion: POSITIVE WITH RESERVATIONS

(A) Policy context

To achieve climate neutrality by 2050, the Commission has proposed to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990. As long as most international partners do not share the same climate ambition as the EU, there is a risk of carbon leakage. Carbon leakage occurs when production is transferred from the EU to other countries with lower climate ambition, or when EU products are replaced by more carbon-intensive imports. Hence, there would be no reduction in global emissions, despite EU climate efforts.

This initiative aims to set up a carbon border adjustment mechanism (CBAM) that would ensure that the price of imports reflects more accurately their carbon content. The measure needs to comply with World Trade Organization rules and other international obligations. It would be an alternative to the measures that currently address the risk of carbon leakage in the EU's Emissions Trading System (ETS) and the EU state aid rules.

(B) Summary of findings

The Board notes the useful additional information provided in advance of the meeting and commitments to make changes to the report. It also notes the significant efforts to coordinate and ensure coherence across the 'Fit for 55' initiatives.

However, the report still contains significant shortcomings. The Board gives a positive opinion with reservations because it expects the DG to rectify the following aspects:

- (1) The report is not clear enough on why existing measures would not be sufficient to address the risk of carbon leakage.**
- (2) The report does not sufficiently explain how this initiative will be coherent with the new ETS proposal, including in the timing of their implementation.**
- (3) The report does not clearly identify and discuss some of the key impacts of the initiative. It does not compare the costs and benefits of the centralised and decentralised administrative implementation options. It does not sufficiently**

This opinion concerns a draft impact assessment which may differ from the final version.

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discuss the risks for a timely implementation. It does not sufficiently assess the impacts on the competitiveness of EU exporters and the risks of resource shuffling.

- (4) The report does not take sufficient account of different stakeholder groups' views.**

(C) What to improve

- 1) The report should be self-standing. It should describe the existing measures to prevent carbon leakage and better identify their weaknesses.
- 2) The report should strengthen the discussion on the coherence with the new ETS proposal. It should explain to what extent the ETS revision depends on the CBAM initiative. The report should justify why it deviates from the ETS on some aspects, such as sectoral coverage and the inclusion of transport emissions. It should better explain why it proposes a parallel system with CBAM certificates to match the carbon content of imports, instead of ETS allowances. The report should be more explicit on the envisaged timeframe for the gradual introduction of CBAM and its coherence with the revision of the ETS.
- 3) The report should better present and analyse the costs and benefits of different administrative options, in particular centralised versus decentralised implementation, to clearly inform the political choices. It should discuss the risks for a timely implementation, in particular linked to the development of IT systems and the potential set-up of a central administrative CBAM body.
- 4) As CBAM is an alternative to free allowances, the initiative should be mainly compared with the scenario with free allowances, and not with the counterfactual with full auctioning.
- 5) The impact analysis should better highlight the effects of the introduction of CBAM on the competitiveness of EU exporters on third-country markets. It should better integrate the risks and consequences of resource shuffling and of carbon leakage down the value chain.
- 6) While global emissions and engaging with third countries are part of the (specific) objectives, the relation with third countries should receive more attention. The report should explain how the CBAM initiative is consistent with the Paris Agreement, and its parties setting their own ambition levels.
- 7) The report should systematically take into account the comments made by the different stakeholder groups throughout the report. In particular, it should be transparent on their positions on the different options and confront any concerns with the findings of the analysis.
- 8) The methodological section (in the annex), including methods, key assumptions, and baseline, should be harmonised as much as possible across all 'Fit for 55' initiatives. Key methodological elements and assumptions should be included concisely in the main report under the baseline section and the introduction to the options. The report should refer explicitly to uncertainties linked to the modelling. Where relevant, the methodological presentation should be adapted to this specific initiative.

Some more technical comments have been sent directly to the author DG.

(D) Conclusion

The DG may proceed with the initiative.

The DG must revise the report in accordance with the Board's findings before launching the interservice consultation.

If there are any changes in the choice or design of the preferred option in the final version of the report, the DG may need to further adjust the attached quantification tables to reflect this.

Full title	Updating the EU Emissions Trading System
Reference number	Plan/2020/6513
Submitted to RSB on	17 March 2021
Date of RSB meeting	21 April 2021

ANNEX: Quantification tables extracted from the draft impact assessment report

The following tables contain information on the costs and benefits of the initiative on which the Board has given its opinion, as presented above.

If the draft report has been revised in line with the Board's recommendations, the content of these tables may be different from those in the final version of the impact assessment report, as published by the Commission.

Table 3-2: Overview of Benefits for Preferred Option – Option 4

<i>I. Overview of Benefits (total for all provisions) – Preferred Option</i>		
<i>Description</i>	<i>Amount</i>	<i>Comments</i>
<i>Benefits</i>		
Supporting reduction of GHG Emissions	Impact on carbon dioxide (CO ₂) emissions in the CBAM sectors in EU27 and rest of the world (% change from MIX with free allocation in 2030): - -2.60% in the EU in 2030 - -0.30% in the rest of the world in 2030	By reducing GHG emissions in the EU, CBAM will enable the EU to achieve its increased targets for 2030 and become carbon neutral by 2050.
Preventing carbon leakage in CBAM sectors	Under option 4, carbon leakage in CBAM sectors is brought down to -23% in 2030	Preventing carbon leakage is important to ensure that global emissions and imports of carbon embedded products do not rise as a result of the relocation of industry from EU.
Revenue generation	The yearly revenue stemming from CBAM is expected to be around: - EUR 8.5 billion in 2025 (6.3 billion EUR from auctioning and 2.2 billion EUR from CBAM) - EUR 14.7 billion in 2030 (12.1 billion EUR from auctioning and 3.0 billion EUR from CBAM)	- Revenue generated is made up of both the revenues from the CBAM itself, and from additional auctioning in the CBAM sectors

Table 3-3: Overview of costs for Preferred Option – Option 4

<i>II. Overview of costs – Preferred option</i>							
		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Economic and social costs in the EU	Direct costs	- loss of employment by 1.10% on CBAM sectors in EU27 in 2030	- Products subject to CBAM leading to a minimal decrease in consumption of 0.42% - expected limited increase in electricity prices - expected limited increase vehicle and household equipment products	Cost of new technologies	Compliance costs (See below)	None	None
	Indirect costs	- minimal loss of employment in downstream sectors		None	None	None	None

Enforcing CBAM	Direct costs	None	None	None	- compliance costs for quantification of emissions, documentation, reporting - Higher compliance costs for SMEs - compliance costs for buying and surrendering CBAM certificates	- setting up systems (e.g. CBAM facility) - setting up system for certificates	- Enforcement costs on processing documents, payments and controlling goods. - Cost of administering registry accounts for transactions of CBAM certificates - Costs for monitoring, verification and reporting of carbon content
	Indirect costs	None	None	None	None	None	None