Council of the European Union

Brussels, 15 July 2021
(OR. en)

Interinstitutional File: 2021/0214(COD)

10871/21
ADD 5

ECOFIN 744
ENV 526
CLIMA 191
FISC 122
UD 192
IA 135

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
No. Cion doc.:	SWD(2021) 644 final
Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT Accompanying the document Proposal for a Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism

Delegations will find attached document SWD(2021) 644 final.

Encl.: SWD(2021) 644 final

EUROPEAN
COMMISSION

Brussels, 14.7.2021
SWD(2021) 644 final

COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the document

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

establishing a carbon border adjustment mechanism

{COM(2021) 564 final} - {SWD(2021) 643 final} - {SWD(2021) 647 final} - {SEC(2021) 564 final}

Executive Summary Sheet

Impact assessment on the introduction of a Carbon Border Adjustment Mechanism

A. Need for action

What is the problem and why is it a problem at EU level?

Should differences in levels of climate ambition persist worldwide, the EU's increased ambitions will reinforce the risk of carbon leakage from the EU. Such leakage is caused by the relocation of production of energy-intensive products from the EU to other countries with lower environmental compliance costs, and of these same EU products being replaced by more carbon-intensive imports from these countries. In that case, the result is an overall increase in global emissions hence undermining the effectiveness of EU climate policies.

In 2005, the EU introduced the EU Emissions Trading System (ETS) to reduce Greenhouse Gas (GHG) emissions and fight against climate change. The EU objective of climate neutrality by 2050 and the decision to raise climate ambition for 2030 lead to a broader reconsideration of existing measures against carbon leakage. In particular, free allocation of allowances prevents carbon leakage risks but also weakens the carbon price signal for EU industry compared to full auctioning. As an alternative to free allocation the CBAM would ensure that the price of imports reflects more accurately their carbon content.

What should be achieved?

The introduction of a CBAM aims at addressing the overarching objective of addressing climate change by reducing GHG emissions in the EU and globally.

More specifically, the measure intends: i) to address the risk of carbon leakage, ii) to contribute to the decarbonisation objectives in the EU, iii) to encourage producers in third countries who export to the EU to adopt low carbon technologies and iv) to ensure that the price of imports reflects more accurately their carbon content.

What is the value added of action at the EU level (subsidiarity)?

Reducing GHG emissions is fundamentally a trans-boundary issue requiring effective action at the largest possible scale. The EU as a supranational organisation is well placed to establish effective climate policy on its territory, as it has done with the EU ETS. The only meaningful way to ensure equivalence between the carbon pricing policy applied in the EU's internal market and the carbon pricing policy applied on imports is to take action at the level of the Union. Additionally, the need for minimal administrative costs is best achieved by consistent rules for the entire single market.

B. Solutions

What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?

Six options were considered including two different taxes (options 1 and 6) and regulation mirroring the EU ETS for imports (the rest of the options) on a selection of basic materials (aluminium, fertilisers, cement and iron and steel) and electricity. All the measures are designed to ensure compliance with the international commitments of the EU:

Option 1 is an import carbon tax based on a default value reflecting EU emissions average while allowing importers to demonstrate their actual carbon intensity of their imported products. On the other hand,

Option 6 consists of an excise duty on carbon-intensive materials covering consumption of both domestic and imported products, along with the continuation of the free allocation of allowances in the EU ETS.

The rest of the options involve the purchase and surrender of import certificates (CBAM certificates) on the importation of a selection of basic materials mirroring the EU ETS. In **option 2**, the price of the certificates would be based on a default value reflecting EU emissions average, with the option for importers to demonstrate the actual carbon intensity of imported products. **Option 3** assumes that the carbon price of imports will be based on actual emissions from third country producers rather than on a default value based on EU producers' averages. Both these options assume that the CBAM sectors do not receive free allowances under the ETS.

Option 4 is a variant of option 3. It considers a phase in of the CBAM with a phase out of free allowances starting after 2025. **Option 5** is another variant with an extension of the scope further down in the value chain to cover also the basic materials as part of components and finished goods.

This impact assessment supports option 4 as the preferred option for its positive impacts and coherence with the rest of the Fit for 55 Package.

What are different stakeholders' views? Who supports which option?

The public consultation suggested that carbon leakage is already perceived as a reality and that the risk is likely to increase in view of the raising of the EU climate ambition. The respondents believe that the following policy options are all at least somewhat relevant for the design of a CBAM (in order of best scored): i) a tax applied on imports on sectors are at risk of carbon leakage (e.g. a border tax or customs duty); ii) a carbon tax (e.g. excise or VAT type) at consumption level applied to EU production as well as to imports; iii) the obligation to purchase CBAM certificates from a specific pool outside the EU ETS dedicated to imports, which would mirror the EU ETS price or iv) the extension of the EU ETS to imports.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise of main ones)?

Option 4 provides clear benefits in terms of emission reductions in the EU and reduction of the risk of carbon leakage for the sectors considered. Relative to a scenario, which assumes the continuation of free allocation in the EU ETS and the new climate level of ambition, Option 4 would lead to a 1.0% emissions reduction in the EU and a 0.4% in the rest of the world in CBAM sectors by 2030. In addition, under option 4, carbon leakage is brought down to -29% in 2030.

What are the costs of the preferred option (if any, otherwise of main ones)?

In terms of economic impacts, option 4 would entail limited negative impacts on GDP (-0.223%) and consumption (-0.558%) and slightly positive effects on investments (0.388%), as compared to the baseline in 2030. Regarding social impacts, option 4 foresees small increase in employment by 0,3% in the sectors covered by CBAM (as compared to baseline, in 2030). Limited negative impact on employment is envisaged for downstream sectors.

Finally, administrative and compliance costs are expected for businesses and authorities. While it is difficult to assess these costs with precision, estimates show that under option 4, aggregate costs for businesses could amount to EUR 9.8 to 14.3 million yearly. Estimated enforcement costs for authorities could amount to an aggregate of EUR 15 million per year.

What are the impacts on SMEs and competitiveness?

The assumptions and data available do not allow for a quantitative assessment of impacts on SMEs. However, we can expect higher relative compliance costs for small companies than larger companies. Competitiveness would be reinforced as the risk of carbon leakage is reduced.
Will there be significant impacts on national budgets and administrations?
No other significant impacts
Will there be other significant impacts?
No other significant impacts
Proportionality?
Option 4 meets the objectives of the initiative in a proportionate manner.
D. Follow up
When will the policy be reviewed?
The measure will apply first to a reduced number of sectors. It will be reviewed after three years from its entry into application in particular to consider the extension of its scope to more basic products and to semi-finished and finished goods.