



CBAM
[si:-bæm]

**EU Carbon Border
Adjustment Mechanism**

CCPIT July 20, 2022

Fair Pricing of Carbon Emissions

or

Green-Veiled Trade Protectionism?

- 01 CONTEXT
- 02 WHAT
- 03 WHEN
- 04 WHO
- 05 ISSUES
- 06 DISCUSSION

SPEAKER INTRODUCTION



01

CONTEXT

Background

Global Landscape

CONTEXT

EU

- Introduced Emission Trading System (ETS) in 2005 (auction-based market emulation)
- ETS operates in 27 EU countries plus Iceland, Liechtenstein and Norway

ROW

- Various countries have domestic carbon pricing schemes
- PRC 2021 ETS trading volume est. 178mtons
- Experiments with Border Pricing Mechanism

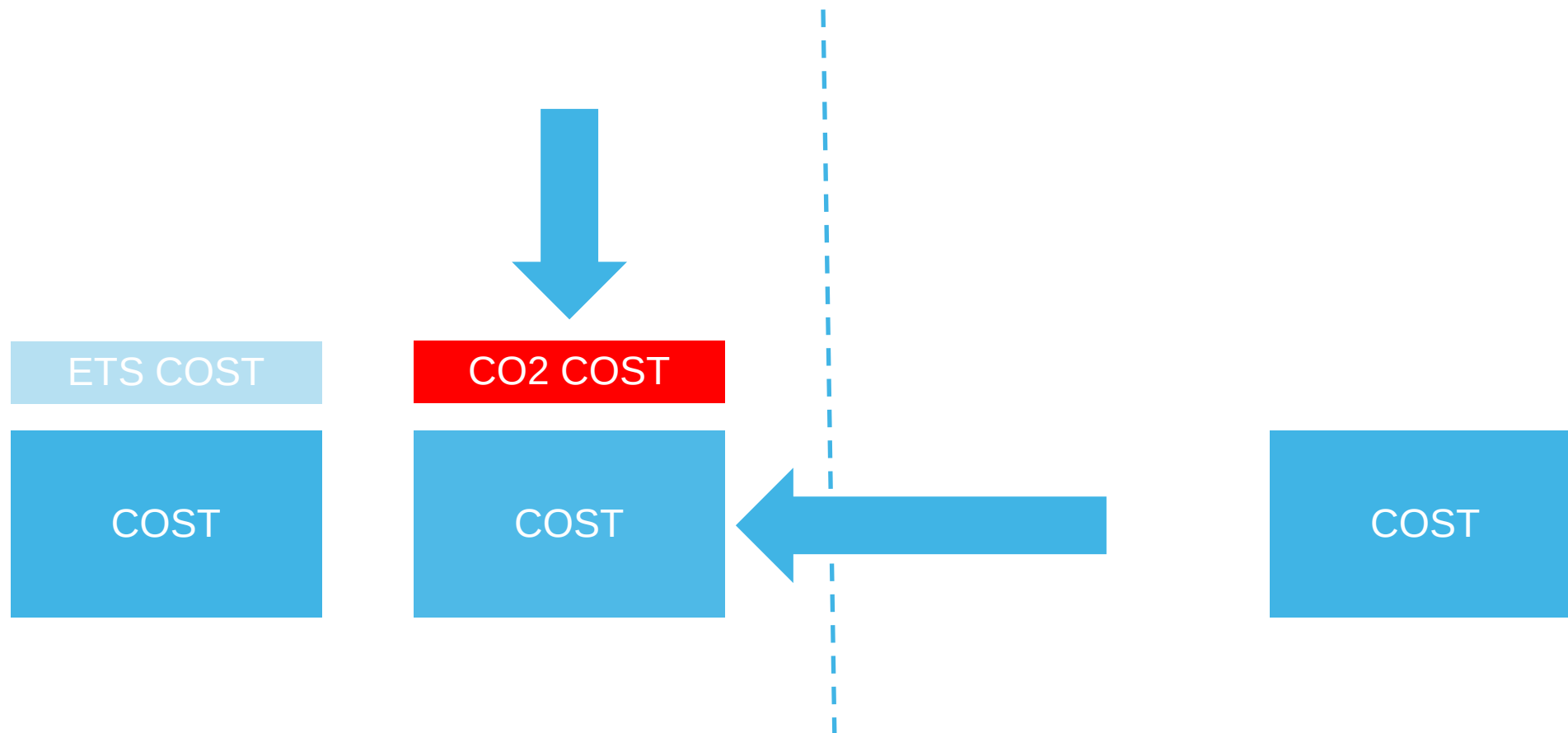
Objectives

- Level the Playing Field (Competition) and achieve Climate Goals (Environment)

WTO

- EU and member states are parties to the WTO
- WTO ground rules such as tariff bindings, domestic treatment, no quantitative restrictions, MFN benefits go back to the 1940s
- Escape provisions to protect human, animal or plant life or health

Illustration Example



02

WHAT

Nature of CBAM

Products covered

WHAT (1)

Measure to equalize carbon emission cost

EU production bears ETS cost, imports should be equalized with domestic products

Instrument types

- Excise Tax on consumption
- Customs tariff / Import tax

'cap and trade' measures

- ETS Integration
- ETS emulation

Nature of CBAM:

- EU ETS emulation
- based on **actual emission** rather than EU average or country average

WHAT (2)

Products

- Cement, iron and steel, aluminium, fertilisers, electricity
- Potentially extended to ceramics, glass, paper and certain chemicals

Subsequent alignment with ETS Sectors?

- Maritime Shipping? Aviation?

Ambitious political landscape !

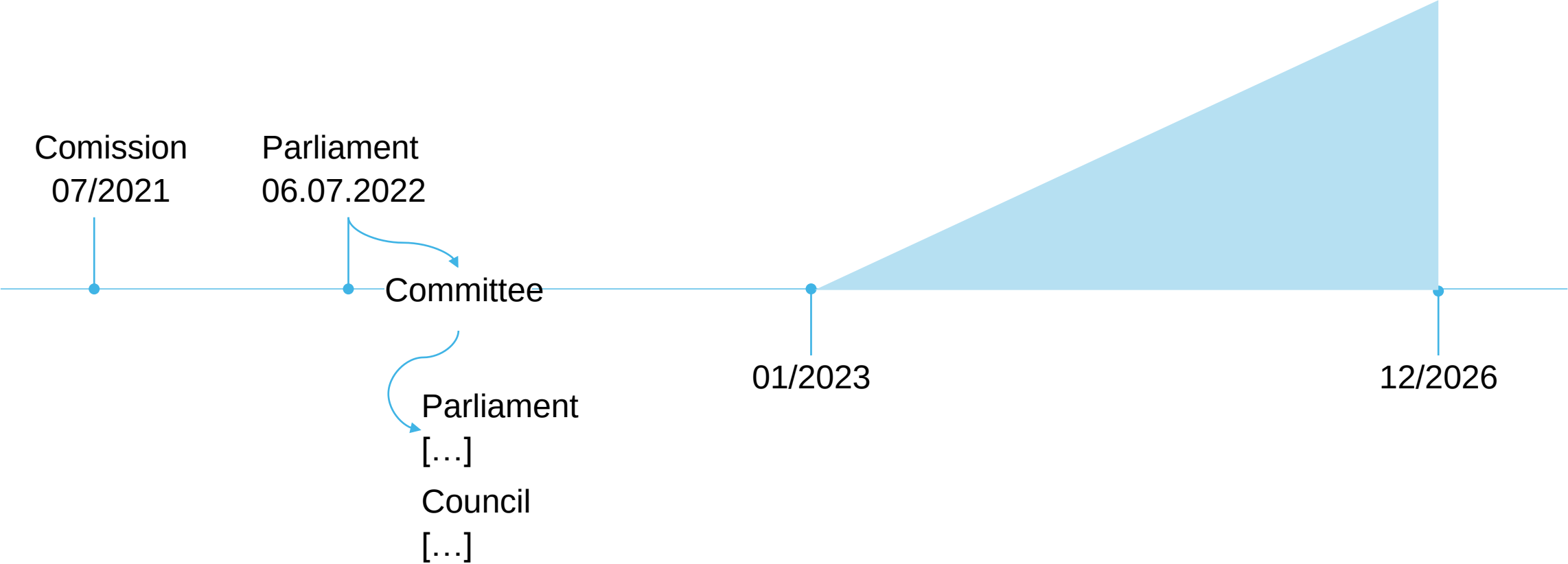
03

WHEN

Legislative Status

Effective Period

WHEN (1)



WHEN (2) - PHASE-IN

2027

2032?

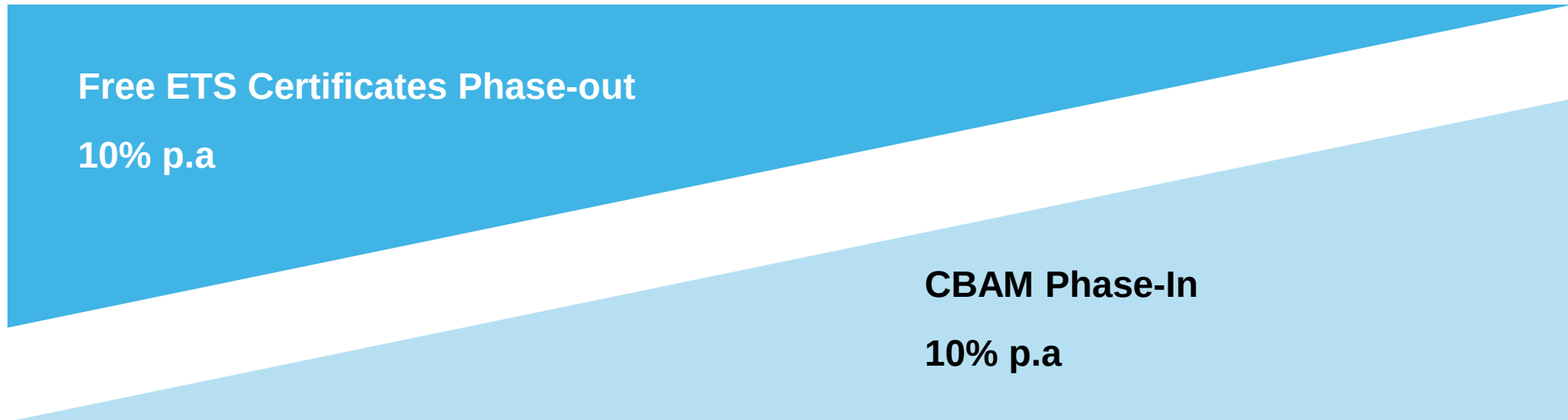
2035

Free ETS Certificates Phase-out

10% p.a

CBAM Phase-In

10% p.a



04

WHO

Roles in Process

Key Duties

WHO

„authorised declarant“

- Importer of goods

Accredited verifier

- Certifies reported emissions

Third country registered operator

- Determines the embedded emissions

Competent authorities

- Designated by member states

Application

- contact information; Economic Operators Registration and Identification number ('EORI')
- certification by the tax authority in the Member State, where the declarant is established, that the declarant is not subject to an outstanding recovery order for national tax debts;

Annual Reporting

- quantity of imported goods and embedded emissions (Art. 7)
- number of CBAM certificates to be surrendered

05

ISSUES

Extraterritorial Reach

WTO Compliance

ISSUES

No Export relief

- Leads to potentially higher CO2 emission, as EU product prices are artificially inflated

No processed goods covered (steel vs. car door)

- Could incentivize offshoring production

Resource Shuffling

- Align high consumption production with existing resources, rather than access new green resources

Verification Protocol

- No reliable standard for extraterritorial emission reporting

Revenues designated for EU Budget

- Revenues expected €8.5bn 2025, €14.7bn 2030 without third country benefit scheme

WTO compliance

- partners could retaliate (2012 aviation CBAM)

06

DISCUSSION

Fair Pricing vs. Trade Protectionism

DISCUSSION

Fair Pricing of Carbon Emissions

or

Green-Veiled Trade Protectionism?

- Global objective pursued
- Market-like instrument
- Commercialize Social Cost
- Incentivize Bonus / Malus Operators
- [...]

- Custom levy in disguise
- Discarded WTO principles
- Budget designation
- Eco-Colonialism
- [...]

We appreciate your attention



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