

Public Consultation on the Carbon Border Adjustment – Rationale for answers

1) To what extent are you familiar with the following initiatives and legislation at EU and international level?

2) Please rate your level of agreement with the following general statements

- a. strongly agrees – the implementation of a BCA is justified in the context of increasing climate ambition asymmetry.
- b. strongly agrees – a BCA is a good way to reduce the risk of carbon leakage hence contributing to achieving the EU's climate ambitions
- c. strongly agrees- a higher price on some imported products, if the BCA is focused and a well-designed tool, could be a real incentive to produce of lower carbon products in the EU and with trading partners, contributing to global climate efforts
- d. Somewhat agree – Because of EU's climate ambition, the EU industry has higher compliance goals (ETS etc) and may raise prices from EU products.

3) Questions on the risk of carbon leakage

3.1 In view of EU's enhanced climate ambition, the risk of carbon leakage is likely to:

- i. Increase – looking at the ETS and its evolution in terms of cap and free allocation, enhanced climate ambition will accelerate the trends and incentivize industries to delocate if nothing is done to ensure their competitiveness within and outside the EU.

3.2 To what extent do you agree with the following statements?

- a. Somewhat agree –There is some evidence that the implementation of the ETS caused carbon leakage, even with compensation schemes such as free allocation.
- b. Somewhat agree – see answer above
- c. Strongly disagree – EU's enhanced climate ambitions would increase the risk of carbon leakage in the current framework, other measures such as a CBAM is necessary in order to address competitiveness and carbon leakage issues.
- d. Somewhat agree—Depending on the chosen design, the BCA could be suited to address the risk of carbon leakage by ensuring the competitiveness of EU's industry inside and outside EU borders.
- e. Somewhat agree – Again, depending on the design and ambition of the BCA, it can be effective to deploy a low-carbon market product within the EU. A substantive price difference between low and high carbon products would allow substitution or improvement in carbon contents.
- f. Somewhat agree – see answer above

- g. Somewhat disagree – In theory, the introduction of standards could be more effective. However, its political feasibility is highly uncertain looking at the current climate diplomatic scene, functioning of the EU and could have unintended consequences such as tensing relationships with trade partners.

4) The objective of the CBAM is to address the risk of carbon leakage from the EU to other countries. Please rate to what extent do you agree that the following should also be part of the objectives of the CBAM

All 3 options presented in the public consultation are considered very important (5) as the CBAM should have several purposes; addressing the climate ambition asymmetry, help in achieving reduction in carbon emissions and ensure a playing field.

5) Which of the following EU policy areas are the most important to take into account in the design of the CBAM

All policy presented in the public consultation should be considered in order to design the most efficient and cohesive CBAM possible. Most relevant (5) to the CBAM are climate, trade and industry policy areas (a., b. and e.) as they will be directly affected by the implementation of the CBAM. Energy taxation, Research and Innovation and Circular economy (c., f. and g.) are also quite important (4) to consider. Finally, development aid (d.) is also relevant (3) but less so considering it will be impacted indirectly.

6) Which of the options do you consider as appropriate for the design of a CBAM? Please also indicate your view about the effectiveness and impact of each option

Out of the four options presented (1. A carbon tax in the form of a border tax, 2. An extension of the EU ETS to imports, 3. Obligation to purchase allowances from a specific pool outside the ETS, 4. a Carbon tax at consumption level), the option 6.3 , with the creation of a specific pool outside the ETS looks like the most appropriate design for a CBAM. It would be an effective way to address carbon leakage and be separated from the EU ETS, guaranteeing a limited impact on EU producers while ensuring their competitiveness. It is also less controversial than a tax, thus easier to adopt (as only need of a majority and no need of unanimous vote) and to a certain extent more legally feasible regarding the WTO and the non-discrimination rule. The least relevant option would be a carbon tax at consumption level (6.4) understood as consumption charges as it would not be effective in addressing risks of carbon leakages.

7) Please rate the proposals in the list below with regard to their relevance for the coverage of the CBAM:

- a. Strongly agree – the CBAM should cover at least scope 1 and 2 emissions in order to calculate realistic embedded emissions content and incentivize effectively low carbon products and low carbon manufacturing of those products (e.g. steel).
- b. Somewhat agree – in order for the CBAM to be the most effective possible, covering the entire value chain should be done. However, the complexity of the calculation and

information collection could impose too much more administrative burden on the EU compared to the enhanced environmental protection (in terms of marginal cost)

- c. Strongly disagree – differentiating between product could add an important layer of complexity, administrative burden and issues of legal feasibility with marginal increase in effectiveness of the CBAM.
- d. Strongly agree – there is relevance in integrating international transport of good in order to have the most comprehensive view of embedded emissions.

8) The Commission indicated in its Green Deal communication that the CBAM would be proposed for selected sectors

8.1 Please indicate if you agree that the following could be relevant in determining the coverage of the CBAM

In order to be effective, the CBAM should be part of an entire framework and not a “silver bullet” stand-alone legislation. That is why it should be a focused instrument on activities energy intensive and trade intensive, reflected in the EU ETS in activities with high risks of carbon leakage.

9) About relevant sectors for the CBAM to be implemented

Specific implementation issues

10) Please indicate to what extent you agree that the calculation of the carbon content of imported products should be based on

Calculation of carbon content for both direct and indirect emissions should be done based on country of origin-specific product benchmarks (b. and e.) in order to be the most precise possible. However, the administrative burden and lack of data availability could seriously impede this choice. The global emission and product benchmarks would encounter the same issues and lack of data (c. and f.). The adoption of the EU emission factors benchmark are the most reachable and politically feasible options (a. and d.).

Developing a method to trace the build-up of emissions across the value chain and having a factor for both direct and indirect emissions (g. and h.) is likely to add complexity and unnecessary burden compared to more straightforward calculation methods.

Calculating embedded emission thanks to the commission product environmental footprint method (j. and k.) does not look like the most relevant approaches as it adds the complexity of transforming some environmental footprint into a carbon “content” and a carbon price (e.g. if the manufacturing of one product endangers biodiversity, how do I translate it into a carbon price). Even though it would be the most comprehensive way of calculation, it risks adding too much complexity and administrative burden on the CBAM. As the tool should be specific, it would be more relevant to tackle some of the environmental footprint with other policy tools such as certification labels and regulations.

11. Please indicate to what extent you agree that the verification of the carbon content of imported products should:

Even though the employment of an independent third party would be the most objective option, it could be regarded as intrusive by trading partners and could possibly deteriorate international relationships. Allowing for self-certification, with accountability from occasional external audit could be more suited even though it decreases the accountability and possibly the effectiveness of a CBAM.

12. Please indicate to what extent you agree with the following statement (on export rebate)

Strongly agree- The possibility of export rebate should be explored to ensure a comprehensive analysis to design a CBAM even though it bears some risks of impeding the decarbonisation of some sectors

13. The CBAM should have adequate anti circumvention mechanisms

13.1 Please indicate which of the following avenues for circumvention would pose significant risks and should be prevented:

The most significant risk would be transshipment strategies (c.) which, in the case of the implementation of a CBAM threatens the relevance of the tool.

Avoidance, resources shuffling, and substitution are somehow fewer problematic risks even though substitution would also undermine the effectiveness of a CBAM.

14. Additional considerations on the scope of the CBAM

To delimit the geographic scope of a CBAM, it would be relevant to propose exemptions for partner countries with strong climate policies. Option c. could be too reductive and “euro-centric” (as it would only look at similar policies as the EU and no other way at effectively reducing carbon emissions). However, option d. should be taken into consideration and could be a way to address global asymmetric climate ambitions.

Having an exemption for least developed countries is relevant (b.), even though it opens to risks like transshipment and weakens the legal feasibility, especially related to WT compliance on the non-discrimination principle.

15. Please indicate if you agree with the following statement

15.1 Economic impacts (impact UA and UK?)

- a. Somewhat agree- CBAM would increase costs for specific downstream sectors which currently import a lot of material, but it should remain a minor effect.
- b. Strongly agree – a CBAM can only have potential positive impacts on the EU industry within the borders if only imports are taken into account.

- c. Somewhat agree – in the short term, EU exporters would experience negative effects, especially the ones
- d. Somewhat agree – the longer-term impact of CBAM would make the EU more competitive, therefore attracting more investment within and outside borders.
- e. A well designed, specific CBAM would encourage the consumption of less carbon intensive products
- f. Somewhat agree- if the revenues from the CBAM is redirected to an innovation fund or CCfDs, it could be an effective way to foster innovation within the EU. The effect elsewhere is uncertain.
- g. Somewhat disagree, a CBAM would improve the competitiveness of EU industry therefore could incentivize relocation. However, the effects remain highly uncertain, looking that apart from carbon prices, other key factors are taken into account to delocalise/relocate.
- h. Somewhat disagree – same argument as above – it would be especially visible if the CBAM has a restrained sectoral scope.

15.2 Environmental impacts

- a. Somewhat agree – by differentiating between high carbon and low carbon products within the EU, the CBAM would incentivize the decarbonisation of carbon intensive industrial processes, therefore contributing to EU's climate ambitions
- b. Somewhat agree – The global impact of the CBAM remains uncertain as it will highly depend as its perception of trading partners. If the CBAM is not perceived as a punitive measure or a too strong push from the EU to align climate ambitions, it could be effective at reducing global carbon emissions.
- c. Somewhat disagree – it will heavily depend on the design and the state of play of climate relations for the CBAM to promote adoption of ambitious climate policies. If the CBAM is specified to some sectors and accompanied with other initiatives/regulatory tools, it could be a lever. It is uncertain that a CBAM alone or which is perceived as too punitive would be able to address the issue of asymmetry of climate ambition. For now, too many factors remain uncertain for a assured answer.

15.3 Social impacts

- a. Unclear question - The Carbon Border Adjustment Mechanism would avoid job losses in the EU due to **the substitution of production from partner countries with lower climate ambition by EU production** – somewhat agree – A well designed CBAM could allow for job relocation within the EU as European industry would be more competitive, at least within EU borders.
- b. Somewhat agree – There is a real risk that the CBAM will be reflected through increased prices for consumers, especially if the CBAM's price is too high. A focused sectoral scope could however avoid having products related to basic needs within it.

c. Somewhat agree- carbon intensive materials are certainly at risk of increased prices with the CBAM implementation. This risk could be decreased if the revenues from the CBAM are redirected to those downstream sectors in order to foster low carbon processes and eventually material substitution.

d. Strongly agree – uncertainty of the CBAM designs also includes its potential effect on living standards. However, if those impacts primarily the poorer segments of the population, they should definitely be addressed.

15.4 Administrative impacts

a- Yes, a CBAM would increase the administrative burden on importers and exporters, especially regarding the complexity of calculation of embedded emissions, alignment and verification and reporting procedures.

b. Yes, similarly, the CBAM would increase administrative burden in public administration due to the certain complexity of its design and implementation. Both monitoring needs and adjustment of customs systems are also factors.

c. Yes in general, it could have an impact on a SMEs with high trade intensity outside the EU.