

## Summary Report

### Public consultation on the Carbon Border Adjustment Mechanism (CBAM)

#### 1. Background

The European Green Deal emphasized that “should differences in levels of ambition worldwide persist, as the EU increases its climate ambition, the Commission will propose a carbon border adjustment mechanism, for selected sectors, to reduce the risk of carbon leakage”.<sup>1</sup> If this risk materialises, there will be no reduction in global emissions, and this will frustrate the efforts of the EU and its industries to meet the global climate objectives of the Paris Agreement.

A **Carbon Border Adjustment Mechanism (CBAM)** would ensure that the price of imports reflects more accurately their carbon content. This measure will be designed to comply with World Trade Organization rules and other international obligations of the EU. This measure would be an alternative to the current free allocation of allowances or compensation for the increase in electricity costs that address the risk of carbon leakage, because of carbon pricing in the EU’s Emissions Trading System (ETS).

A public consultation was undertaken in relation to the introduction of the CBAM in line with the Better Regulations Guidelines. This consultation was placed on the EU website, which remained open for fourteen weeks from 22 July 2020 to 28 October 2020. The OPC questionnaire consisted of 43 questions: 38 closed-ended questions and 5 open-ended questions and aimed to gather opinions from citizens and organisations on the justifications, objectives, potential design and scope as well as impacts of the initiative. Respondents were also allowed to upload position papers.

The responses to the public consultation are described below.

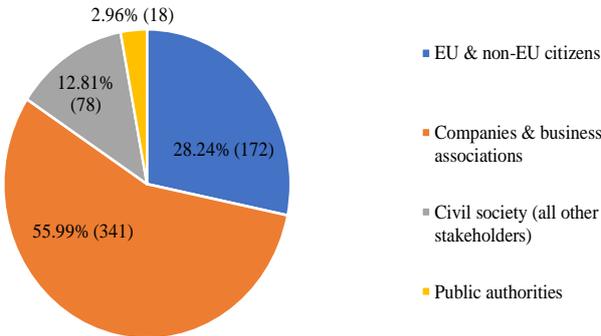
#### 2. Respondents profile

A total of 615 respondents participated in the public consultation. Of these, 6 responses were duplicates, leading to 609 valid contributions. Almost 90% of the consultation respondents (Figure 1) belong to one of the following three stakeholder categories: i) company/business organisations (171); ii) business associations (170); and iii) EU citizens (162). ‘Civil society (all other stakeholders)’ comprises academic and research institutions, consumer organisations, environmental organisations, NGOs, trade unions and any other stakeholders not included in the other three groups. As regards the geographical distribution of respondents (Figure 2), most of them are based in the EU (507 responses). A non-negligible share of responses (almost 17% of the total) comes from third countries.

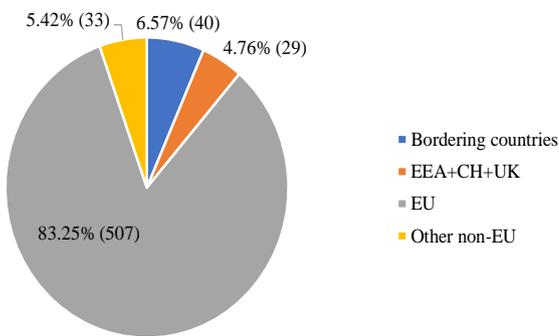
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<sup>1</sup> European Commission. (2019). The European Green Deal. (COM(2019) 640 final), p.5.

**Figure 1: Type of respondents**



**Figure 2: Countries of respondents**

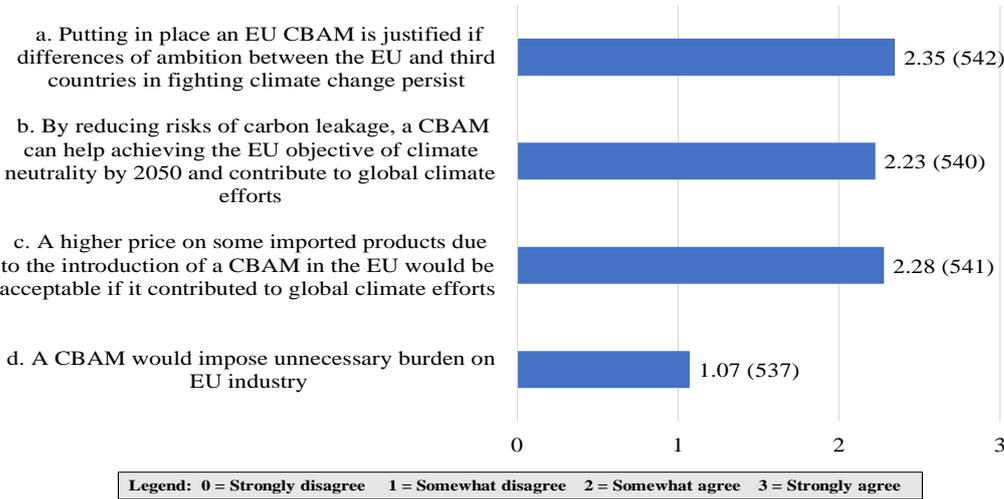


Source: Public consultation questionnaire responses

**3. General Context**

Respondent’s level of agreement with some general statements about introducing a CBAM can be seen in Figure 3. Respondents seem to indicate that a CBAM can be justified by differences of ambition between the EU and third countries when it comes to fighting climate change, and that it can contribute to both EU and global climate efforts. Most do not seem believe that a CBAM would impose unnecessary burdens on the EU industry.

**Figure 3: Level of agreement with the statements relating to the general context of the CBAM**



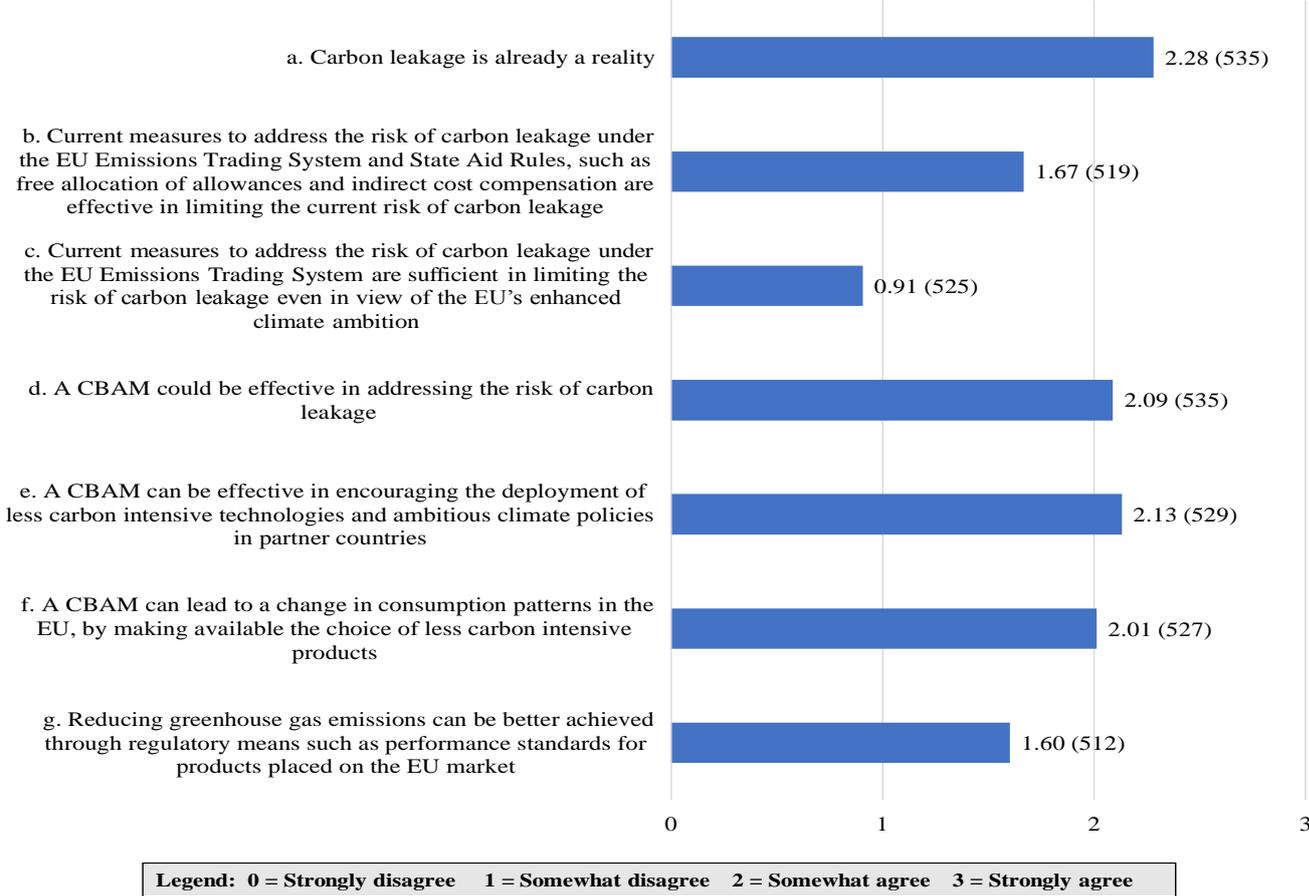
Source: Public consultation questionnaire responses

**4. Justification and objectives**

Most respondents appear to believe that carbon leakage is a real issue and that the CBAM can address carbon leakage, foster consumption of low-carbon products in the EU, and stimulate the deployment of low-carbon technologies and ambitious climate policies in third countries (Figure 4). Mixed opinions were reported on the effectiveness of current measures in the context of the EU ETS and state aid rules to limit carbon leakage, and on the ability of other regulatory measures to reduce

greenhouse gas emissions. Finally, respondents seem disagree that the current measures under the EU ETS can address carbon leakage sufficiently in regards to enhanced climate ambitions in the EU.

**Figure 4: Level of agreement with the statements relating to justification and objectives of the CBAM**

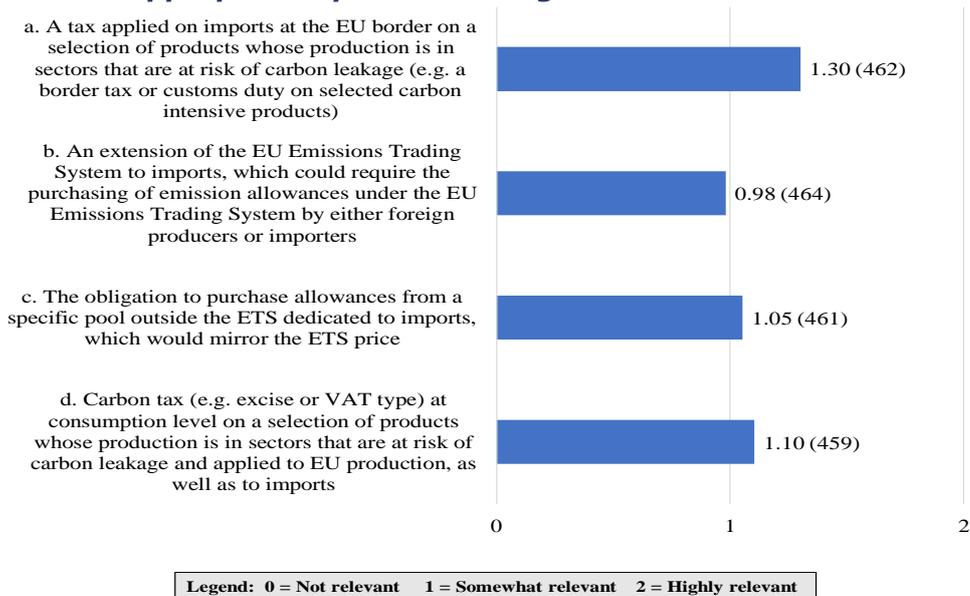


Source: Public consultation questionnaire responses

**5. Design and Coverage of the Mechanism**

Regarding the design of the mechanism, responses appear to indicate that all policy options listed in the questionnaire are at least somewhat relevant for the design of a CBAM (Figure 5). A tax applied on imported products associated with sectors at risk of carbon leakage appears to be the most relevant option according to the respondents, followed by a carbon tax at consumption level applied to all products (both imported or produced in the EU) in sectors that are at risk of carbon leakage.

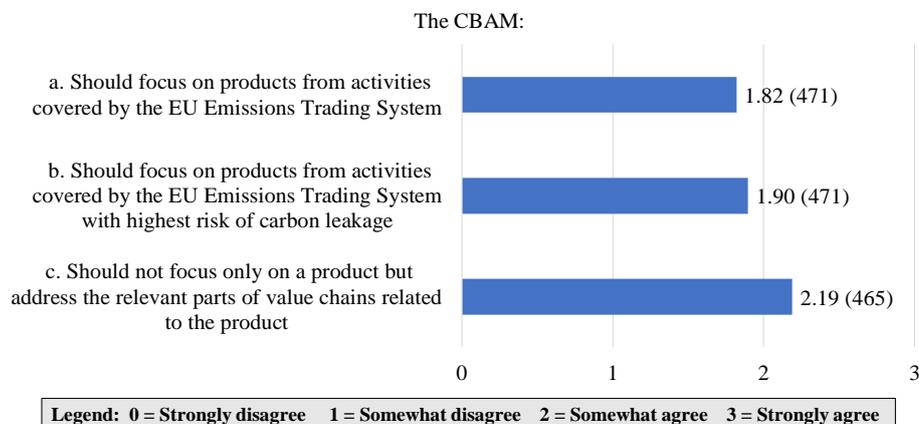
**Figure 5: Most appropriate options to design the CBAM**



Source: Public consultation questionnaire responses

Responses on products coverage of the measure are presented on Figure 6. Respondents appear to suggest that the CBAM should focus on products from activities already included in the EU ETS (especially those with the highest risk of carbon leakage) and account for entire value chains.

**Figure 6: Product coverage**



Source: Public consultation questionnaire responses

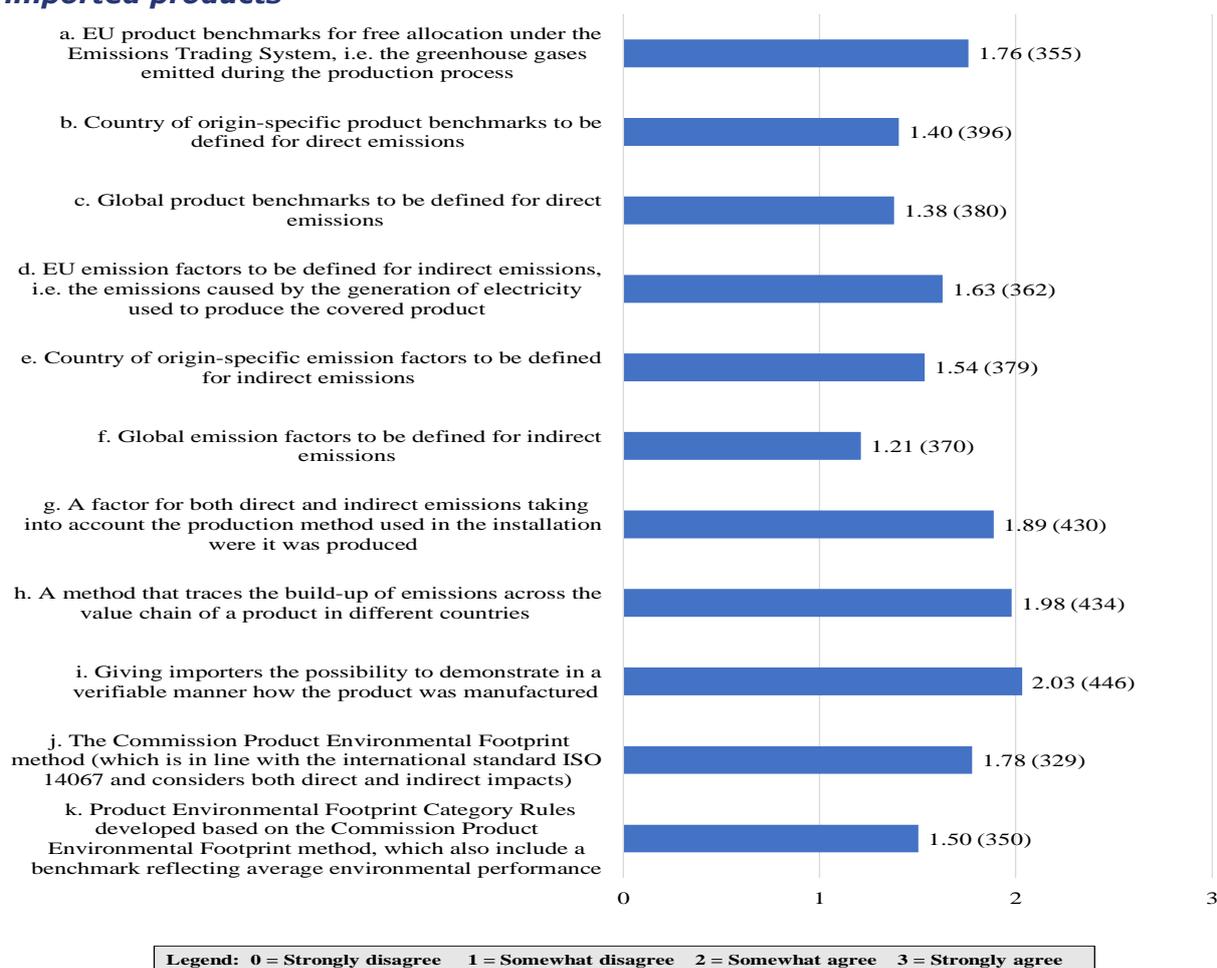
On sectoral coverage, each respondent was allowed to select up to 10 sectors in the on-line questionnaire. The following five sectors are selected more than 50 times by the 609 respondents:

- i) Electric power generation, transmission and distribution;
- ii) Manufacture of cement, lime and plaster;
- iii) Manufacture of iron and steel and of ferro-alloys;
- iv) Manufacture of basic chemicals, fertilisers and nitrogen compounds, plastics and synthetic rubber; and
- v) Extraction of crude petroleum.

## 6. Implementation issues

There does not seem to be a consensus among respondents on the possible approach that can be applied to compute the carbon content of imported products (Figure 7). Respondents suggest that: i) both direct and indirect emission should be factored in; ii) emissions should account for the entire value chain of products in different countries; and iii) importers should have the possibility to demonstrate how the imported product was manufactured, in a verifiable manner. To a lesser extent, respondents appear to indicate that the approach should rely upon: i) the EU product benchmarks for free allocation under the EU ETS; and ii) the Commission product environmental footprint method.

**Figure 7: Level of agreement on options to calculate the carbon content of imported products**



Source: Public consultation questionnaire responses

Moreover, a number of respondents specified that the carbon content of imported products should be verified by an independent third party, and the CBAM should not permit self-certification. In addition, most participants argued that the possibility to grant a rebate to EU exporters should be explored under the CBAM.

The majority of respondents also expressed that the following avenues for circumvention would appear to pose significant risks to the correct functioning of the CBAM and should be prevented:

- i) substitution between primary inputs and semi-finished goods;

- ii) resource shuffling in the form of allocating low carbon production only to the EU;
- iii) transshipment strategies via exempted third countries; and
- iv) avoidance based on minor modification of imported products.

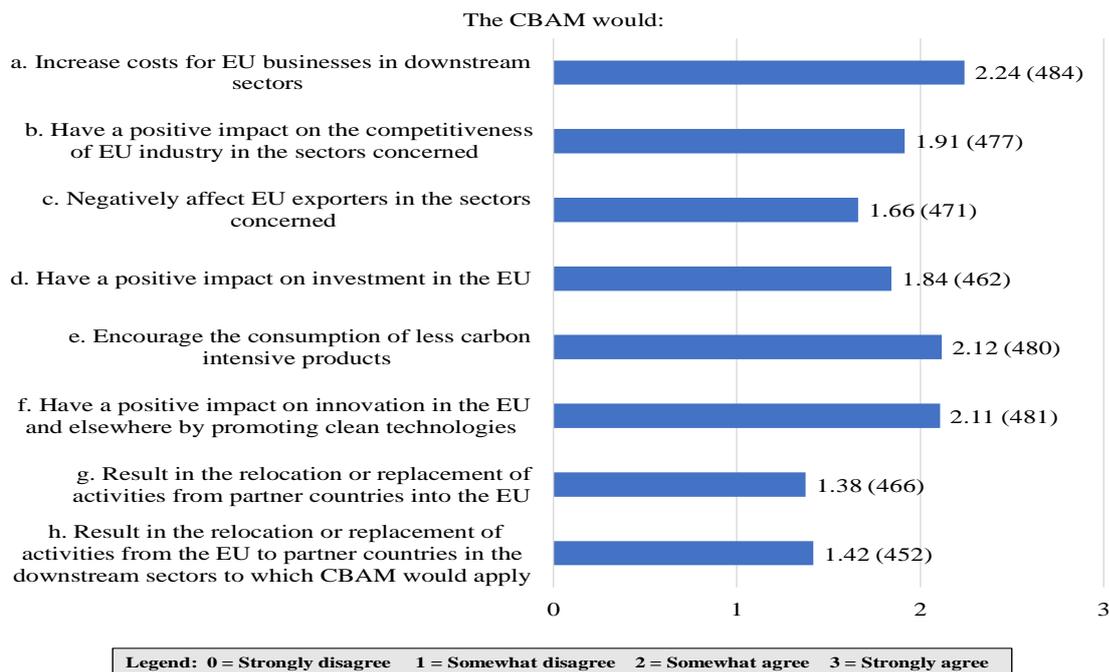
The majority of the respondents seem to indicate that no exemption should be granted and that all imports should be subject to a CBAM on an equal footing. Consulted stakeholders, however, also leave room for exempting partner countries with established climate policies that create incentives for emission reductions, similar to those in force in the EU. In contrast, there is no agreement in respect to granting credits for importing countries with climate policies generating carbon costs higher than in the EU.

## 7. Expected impacts

### 7.1 Economic impacts

On economic impacts (Figure 8), the respondents recognise that the CBAM would: i) encourage the consumption of low-carbon products; ii) have a positive impact on innovation; iii) have a positive impact on the competitiveness of the EU industry; and iv) have a positive impact on investment in the EU. They also appear to agree, however, that it would lead to increased costs for EU businesses in downstream sectors.

**Figure 8: Economic impacts**

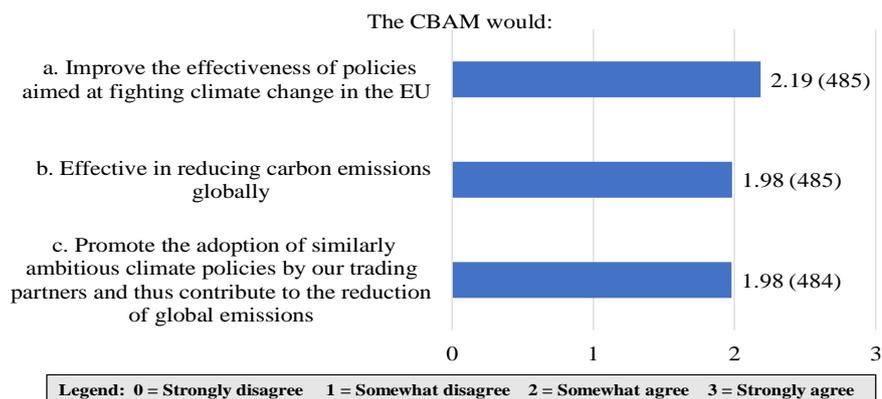


*Source: Public consultation questionnaire responses*

### 7.2 Environmental impacts

Respondents generally suggest that the CBAM would have positive environmental impacts. That is improving the effectiveness of policies against climate change, reducing carbon emission globally, and promoting the adoption of ambitious climate policies in third countries (Figure 9).

**Figure 9: Environmental impacts**

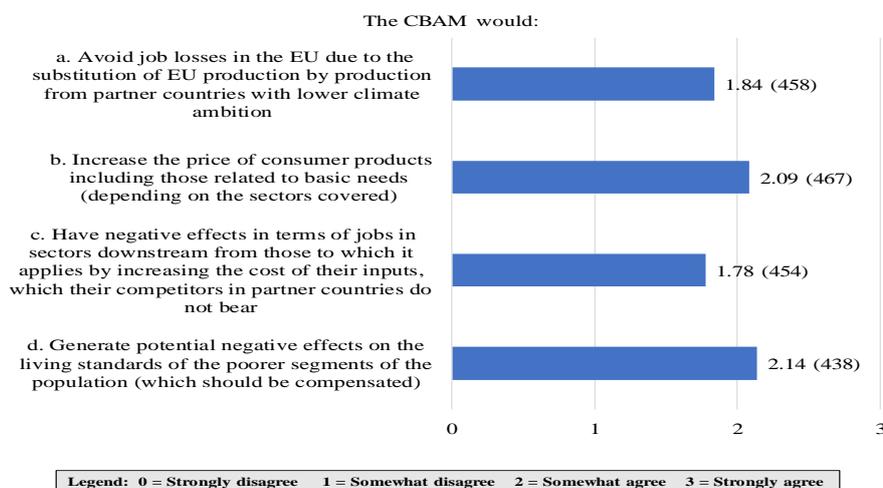


Source: Public consultation questionnaire responses

### 7.3 Social impacts

Respondents appear to indicate that the CBAM would have both positive and negative social impacts (Figure 10). At the same time, they seem to agree that the mechanism would avoid job losses in the EU, which would otherwise result from the relocation of EU production to countries with lower climate ambitions. Respondents also appear to indicate that the CBAM may: i) increase the price of consumer products; ii) lead to job losses in downstream sectors; and iii) generate potential negative effects on the living standards of the poorer segments of the population.

**Figure 10: Social impacts**



Source: Public consultation questionnaire responses

### 7.4 Administrative burden

Relating to the administrative burden:

- About 95% of respondents suggest that the CBAM could increase administrative burdens for exporters and importers;
- Almost 93% of respondents envisage an increase in administrative burdens borne by public administrations in the EU; and
- The majority of respondents appear to maintain that the CBAM is expected to generate relatively higher administrative burdens for SMEs, however, almost one third of respondents appear to disagree with this conclusion.