WEBINAR SERIES:

EU Green Deal Policies and their Relevance in Asia-Pacific

The Carbon Border Adjustment Mechanism (CBAM)

Knowledge Brief

Context

The **EU SWITCH-Asia Policy Support Component** and the **European Environment Bureau,** held a webinar on the 12th December 2024 about "***Carbon Border Adjustment Mechanism (CBAM) and the Road to Net-Zero: Challenges and Opportunities***". It is part of a **series of webinars**, which seeks to explore the implications of EU policies related to Sustainable Consumption and Production for its partner countries, particularly in the Asia-Pacific region. It aims to understand the goals of these policies, their relevance in specific contexts, and their implications for stakeholders in the Asia-Pacific, particularly concerning legislation that has emerged from EU policies. This Knowledge brief aims to capture the ideas shared during the webinar but is not a comprehensive analysis of the policy. The webinar focused on clarity and diversity of views, rather than comprehensiveness.

Key Messages

The European Union (EU) has taken steps to tackle climate change with the introduction of a Carbon Border Adjustment Mechanism (CBAM) to address imported emissions embedded in its consumption.

CBAM is part of new legislation and measures adopted as part of the European Green Deal and is closely link to the EU's legally binding target of carbon neutrality by 2050. The measure creates incentives for industries in third countries who export goods to the EU to decarbonise and innovate, even where this is not (yet) demanded by domestic legislation.

It therefore has the potential to become a **powerful tool to address global emissions and to create incentives for different industry sectors to decarbonise**. Many business stakeholders from the EU and Asia agree on the need to decarbonise, but some are also concerned that CBAM could lead to increased costs and reduced trade. As the measure is not being implemented yet, the actual impacts are not clear.

Introduction

The **EU SWITCH-Asia Policy Support Component** and the **European Environment Bureau**, held the webinar ***The Carbon Border Adjustment Mechanism (CBAM) and the road to Net-Zero: challenges and opportunities*** to introduce the purpose, process and current status of the mechanism. During this event, several leading experts convened to discuss the importance and responsibilities for EU Importers and Asia-Pacific Exporters, the concept of and where CBAM aligns with the future direction of climate and trade policy.

As mentioned by **Dr. Zinaida Fadeeva, Team Leader SWITCH-Asia Programme** in her introduction:

> ***"Improving resource efficiency is closely linked to reducing emissions across supply chains […] Material production accounts to close to a quarter of global greenhouse gas emissions, largely driven by energy intensive industries".***

The intended objective of CBAM to address emissions from material production is clear, and the participants brought forward several important insights and key considerations for the effective implementation of the mechanism.

Addressing carbon leakage with a tax

CBAM is part of new legislation and measures adopted as part of the European Green Deal and is closely linked to the EU's legally binding target of carbon neutrality by 2050.

Within the EU, there is a price tag on carbon emissions, most prominently through the Emissions Trading System (ETS). Several countries have additional carbon taxes. The purpose of CBAM is to level the playing field for EU producers subject to the revised EU cap-and-trade ETS who currently have a price disadvantage compared to producers outside the EU where there are no or lower price tags on carbon emissions.

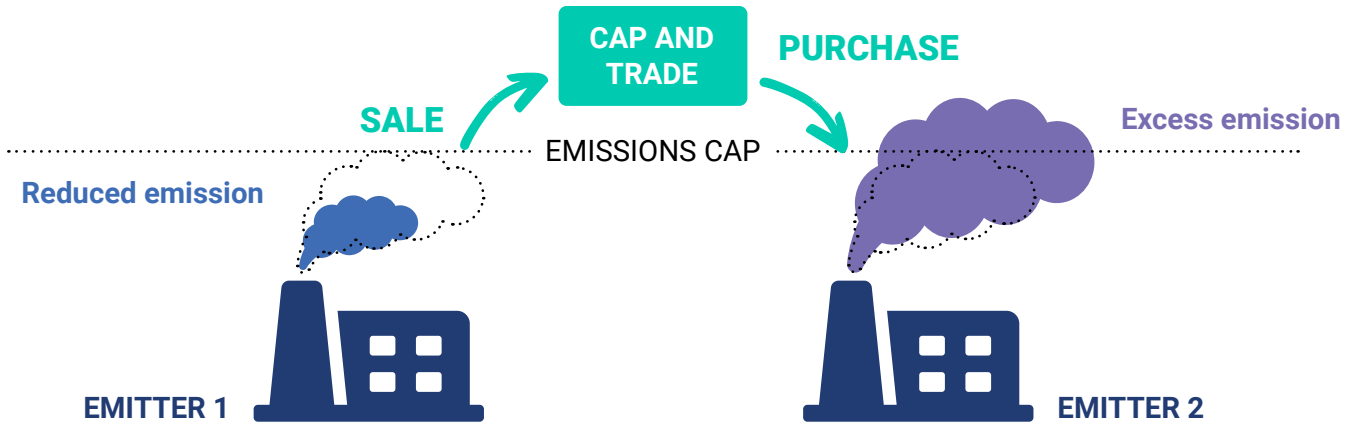

Figure. 1: An illustration of a cap-and-trade system

As mentioned by **Patrizia Heidegger, Deputy Secretary General of the European Environmental Bureau** in her overview, CBAM responds to what is referred to as 'carbon leakages' - a phenomenon where EU-based companies shift carbon-intensive production to countries with less stringent climate policies than in the EU, thereby importing carbon-intensive products rather than reducing emissions locally. 'Carbon leakages' have been shown in sectors such as cement, steel and aluminium production, refined petroleum and the chemical industry (for ammonia and fertiliser production), for example. CBAM therefore initially applies to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage: cement, iron and steel, aluminium, fertilisers, electricity and hydrogen.

According to OECD figures, the proportion of foreign CO_2 embedded in final EU domestic demand is relatively constant at 25%. CBAM seeks to ensure the carbon price of imports is equivalent to the carbon price of

domestic production by introducing a levy on imported, carbon-intensive products, therefore not creating a price disadvantage for any player, neither European nor non-European producers. CBAM entered into application on 1 October 2023 with the first reporting period for importers ending 31 January 2024. Currently, we are in the transitional phase which lasts between 2023 and 2025. CBAM is meant to apply in its definitive regime from 2026. This gradual introduction of the CBAM is aligned with the phase-out of the allocation of free allowances under the EU Emissions Trading System (ETS) to support the decarbonisation of EU industry.

What should importers and exporters do now?

Since CBAM is a new initiative, the transitional period will be an important time frame to get the details right. The objective of this period is to serve as a **pilot and learning period** for all stakeholders (importers, producers and authorities) and to collect information on embedded emissions to refine the methodology.

During this period, importers will **only have to report greenhouse gas emissions** (GHG) embedded in their imports (direct and indirect emissions), without the need to buy and surrender certificates. The Implementing Regulation on reporting requirements and methodology provides for some flexibility when it comes to the values used to calculate embedded emissions on imports during the transitional phase (in 2024).

The Commission has developed the **CBAM transitional registry** to help importers perform and report. Access to the registry should be requested through the National Competent Authority (NCA) of the Member State in which the importer is established.

With regards to the reporting, **only the EU method will be accepted**. A portal section of the CBAM Registry will allow installation operators outside the EU to upload and share their installations and emissions data with reporting declarants in a streamlined manner.

CBAM declarants will be able to apply for the 'authorised CBAM declarant' status via the **CBAM Registry**. This status will become mandatory as of 1 January 2026 for the import of CBAM goods in the EU customs territory. Registration for installation operators is open since 1 January 2025.

EU importers of goods covered by CBAM will register with national authorities where they can also buy CBAM certificates. The price of the certificates will be calculated depending on the weekly average auction price of EU ETS allowances expressed in €/tonne of CO_2 emitted. EU importers will declare the emissions embedded in their imports and surrender the corresponding number of certificates each year.

If importers can prove that a **carbon price has already been paid** during the production of the imported goods, the corresponding amount **can be deducted**. Indeed, many jurisdictions outside the EU already have a carbon pricing system; **as of 2022** both Indonesia and Singapore had an active carbon pricing law or act with many more ASEAN countries considering setting up an instrument, and in 2020 the World Bank counted 61 pricing initiatives including types of 30 carbon taxes.

Curse or blessing?

Stakeholders globally have been calling out the shifting of pollution to poorer regions, including the outsourcing of GHG emissions.

While CBAM is meant to decrease the risk of emissions being shifted to production in other countries, the measure also comes with a risk of potentially negative impacts on vulnerable economies. A **joint study** between the LSE and the African Climate Foundation estimated that **Africa** would be the **most-negatively affected of the major economies/regions**. In an **analysis** at Center for Global Development, they estimated that CBAM could lead to a 1.6% fall in Mozambique's GDP; a 0.18% fall in India's GDP – but a net gain for China. Again, given the fact that the mechanism is not yet implemented, the actual impacts are unknown.

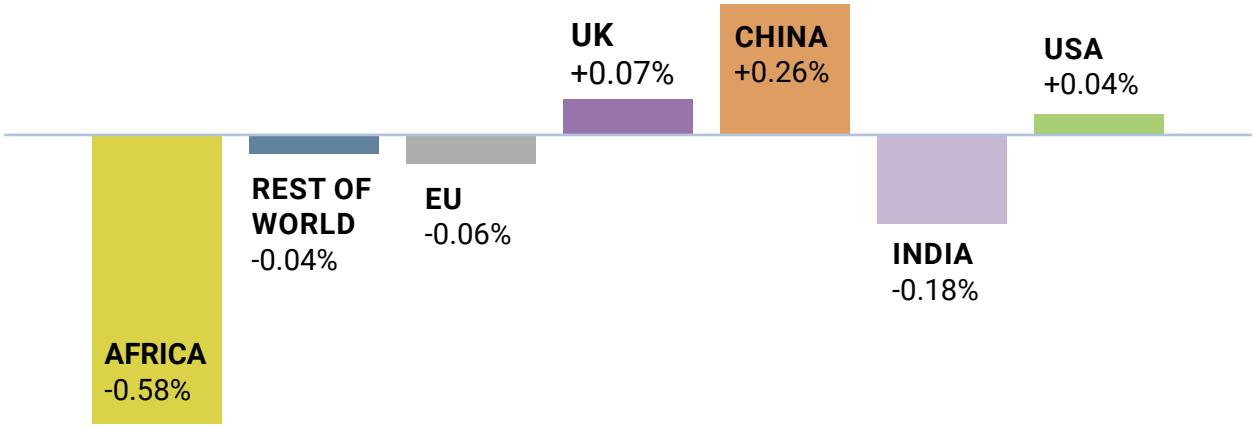

Figure 2: Impact of CBAM on GDP, by economy (% change)

Adapted from: joint study between the LSE and the African Climate Foundation

Civil society and scholars from Europe have highlighted the lack of comprehensive ways of accounting for consumption-based GHG emissions and that highly industrialised countries do not in fact report their *true* level of emissions. As regards EU companies in the ASEAN, **Liyana Othman, Advocacy Director, EU ASEAN Business Council** expressed concern that CBAM could, with its detailed reporting, monitoring and operations, "reduce profits by up to 40%". In a similar vein, **Garlan Irawan, Trade Facilitation Officer, ASEAN Secretariat** quoted the ASEAN statistics database to illustrate how major trade values could be impacted, which could reduce competitiveness if processes remain carbon intensive.

Anushka Wijesinha, Director, Centre for a Smart Future, noted in the context of Sri Lanka that currently cement is the only product category with an impact – around 0.1% of exports. He stressed the necessity to provide a longer consultation period for when there is an eventual expansion of CBAM, for example towards ceramics and apparel.

Many low and lower-middle class countries lack access to low-carbon or zero carbon technology and/or the financial means to invest. **Only one of 70 low and lower-middle income countries have implemented a carbon price** to date, and only a further 6 planning to do so (as of 2023). CBAM does not **exempt low-income countries** ('least-developed countries'). **Patrizia Heidegger, Deputy Secretary General of the EEB**, therefore argued that there should be exceptions for LDCs (which was also the original position of the European Parliament), thereby making sure that the negative impacts on weaker economies are mitigated.

The EU and other actors need to provide additional finance and technology transfer based on partnership. In the words of **Sander Happaerts, First Secretary to the EU Delegation to the ASEAN**,

> ***"We really have to make sure there are no back doors to prevent carbon leakage. At the same time, EU is still the largest provider of climate finance in the world. We are not asking developing countries to pay us, this development should lead to more climate finance to them."***

This finance should ideally help projects favouring local production and consumption first (and not only export-oriented production).

There are arguably not (yet) enough provisions for "common but differentiated responsibilities" in the design of CBAM. This is difficult to defend with EU per head emissions at over 10 tonnes per head (comparable to China's 11 t and 9 t CO_2e/capita in East Asia and Pacific), relative to just **1.3 and 2.5 in low and lower-middle income** countries and 2.6 in South Asia. The EU will therefore need to offer clear support to affected countries.

Especially in highly industrialised countries, resource intensive consumption and production patterns, need to be addressed in order to reduce emissions and resource use. Overconsumption is also linked to imbalances in global trade patterns, where many low-income countries face trade deficits towards high-income countries and are locked at the bottom of the global value chain as exporters of cheap labour, raw materials and natural resources.

Conclusion

CBAM is considered to be an important element in decarbonisation efforts led by the EU, while it is not a silver bullet. Avoiding carbon leakages and the externalisation of pollution through levies is only one amongst many measures needed to reduce emissions in Europe and globally. Carbon taxes create a system that favours low-carbon production over high-carbon production. **Market-based solutions** need to be combined with other measures, such as **legally binding pathways to phase out polluting technology**.

However, the European Commission **estimates** annual **revenues from CBAM to reach €9.1 billion by 2030** to finance the reimbursement of the borrowing of NextGenerationEU, the EU's covid recovery package agreed in 2020. Additional financial resources should be reinvested – at least the part obtained from low-income countries – in decarbonisation of these economies.

Low- and middle-countries can develop their own carbon price and generate their own revenues. The EU has promised to help those countries interested in introducing or enhancing their carbon pricing systems.

References

World Bank databank: **https://data.worldbank.org/indicator/EN.GHG.ALL.PC.CE.AR5**

ADB Brief 276: European Union Carbon Border Adjustment Mechanism: Economic Impact and Implications for Asia: **https://www.adb.org/sites/default/files/publication/928466/adb-brief-276-eu-carbon-border-adjustment-mechanism.pdf**

- CBAM Self Assessment Tool for Importers to the EU
- **Nano-learning module** introducing CBAM for EU importers and customs declarants and third country operators
- Guidance material in various languages (Hindi, Chinese, Korean)
- Sector-specific information

Watch the recording here.