Towards a WTO-compatible EU carbon border adjustment mechanism

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The European Parliament adopted by 444 votes to 70, with 181 abstentions, a resolution towards a WTO-compatible EU border carbon adjustment mechanism.

Members noted that while greenhouse gas (GHG) emissions in the EU have fallen by 24%, GHG emissions embedded in imports into the EU have continued to rise, undermining the EU's efforts to reduce its global carbon footprint.

Net imports of goods and services into the EU account for over 20% of the EU's CO2 emissions. GHG emissions from imports should therefore be better monitored to identify possible measures to reduce the EU's global carbon footprint.

A WTO-compatible European Carbon Border Adjustment Mechanism (CBAM)

Parliament supported the establishment of a European carbon border adjustment mechanism, provided it is compatible with World Trade Organisation (WTO) rules and the EU's free trade agreements (FTAs) and is exclusively designed to advance climate objectives and not be misused as a tool to enhance protectionism.

According to Members, the introduction of a carbon border adjustment mechanism should be:

- part of a package of legislative measures to ensure the rapid reduction of GHG emissions from EU production and consumption, notably by boosting energy efficiency and the deployment of renewable energies;

- combined with policies to promote investment in low-carbon industrial processes, including through innovative financing tools and an environmentally ambitious and socially fair European industrial policy to steer Europe's decarbonised reindustrialisation.

As a complement to the introduction of such a mechanism, the Commission should propose a more ambitious and binding norms and standards on products placed on the EU market in terms of GHG emission reduction and savings on resources and energy.

Connection with the revision of the EU Emissions Trading Scheme (EU ETS)

The resolution called for consideration of the modalities for the design of a border carbon adjustment mechanism coupled with the revision of the EU ETS, so as to ensure complementarity and consistency. To prevent possible distortions in the internal market and along the value chain, the mechanism should cover all products imported under the EU Emissions Trading Scheme (EU ETS), including when embedded in intermediate or final products.

As a starting point (from 2023) and following an impact assessment, the mechanism should cover the power sector and energy-intensive industrial sectors such as cement, steel, aluminium, oil refinery, paper, glass, chemicals and fertilisers, which continue to benefit from significant amounts of free allocations and still account for 94% of the EU's industrial emissions.

Members considered that to address the potential risk of carbon leakage while complying with WTO rules, the mechanism needs to charge the carbon content of imports in a way that mirrors the carbon costs paid by EU producers. Carbon pricing under the mechanism should mirror the dynamic evolution of the price of EU allowances under the EU ETS while ensuring predictability and less volatility in the price of carbon.

The environmental criteria should therefore play an essential role in the choice of instrument, ensuring a predictable and sufficiently high carbon price that incentivises decarbonisation investments.

Trade-related aspects of a carbon border adjustment mechanism

Members called for the Paris Agreement to become one of the main guiding principles of trade policy, to which all trade initiatives and their policy tools must be adjusted, by including it in, inter alia, free-trade agreements (FTAs) as an essential element.

Stressing that the EU has played a leading role in global climate action, the resolution encouraged the Commission and Member States to step up their climate diplomacy ahead of and after the adoption of the legislative proposal for a carbon border adjustment mechanism, and to ensure continued dialogue between trading partners to incentivise global climate action.

Any mechanism must create an incentive for industries in the EU and abroad to produce clean and competitive products and avoid carbon leakage, without endangering trade opportunities.

Fuelling the EU budget as a new own resource

Parliament supported the Commission's intention to use the revenue generated by the border carbon adjustment mechanism as new own resources for the EU budget. The new revenue should further support climate action and the objectives of the Green Deal, such as the just transition and the decarbonisation of Europes economy, and for an increase in the EUs contribution to international climate finance in favour of Least Developed Countries and Small Island Developing States, which are most vulnerable to climate change.