

## **Response to the published Inception Impact Assessment for a Carbon Border Adjustment Mechanism**

Responded: 1st April 2020

Bellona Europa commends the European Commission's ongoing efforts to ensure that climate neutrality is met by 2050 and efforts to price Greenhouse Gas (GHG) emissions. While the proposed Carbon Border Adjustment (CBA) Mechanism could be an important tool ensuring that imports "reflect more accurately their carbon content", it must be accompanied by an equally effective carbon price within the EU. With the CBA set to tackle carbon leakage, it must be acknowledged that current levels of carbon leakage are minimal, and any potential future threat hinges on increased asymmetries in global climate ambition levels and carbon prices. Although a CBA could be an important tool in such a context, incentivising global climate ambition levels, it cannot be seen as a silver bullet.

In the context of the EU ETS, a CBA is preferable to the current system of free allowances. It is important to note that free allowances cannot operate together or in conjunction with a CBA on the same products. It would either result in not being WTO compliant through double protection of domestic industry, or reduce its effect as any benefit derived from free allowances would also be extended to imports.

As the current threat of carbon leakage is minimal, free allowances under EU ETS are resulting in windfall profits rather than protecting against actual carbon leakage. As a result, the current system may in fact contribute to steering investments away from decarbonisation efforts. In the upcoming revision of the EU ETS, Bellona Europa strongly recommends that the European Commission complete a full phase-out of free allowances, introduce a price floor and ensure a strengthened and dynamic Market Stability Reserve (MSR) to account for market developments. Although a proposed CBA on imports can be an enabling tool for global climate ambition, it is not sufficient on its own.

A CBA mechanism must therefore be accompanied by a comprehensive policy package incentivising low carbon investments, production and consumption within the EU. This must include a portfolio of measures including market drivers for uptake of clean products. Bellona Europa urges the European Commission to include a thorough assessment of all available policy options and tools in the upcoming impact assessment, including the introduction of product standards. Above all, any CBA or policy influencing the treatment of imports must be for climate and not protectionism. The aims below must be at the heart of any potential CBA for it to deliver. If not, a CBA on imports risks being nothing more than a vaguely disguised protectionist measure where global climate ambition and emission cuts are secondary targets.

1. Encourage and incentivize third countries to increase climate ambition to access the European market. In turn reducing total global emissions and facilitate the development of low-carbon products and markets.
2. Facilitate development of low-carbon products and markets in Europe, through sustained demand and predictability, for industries facing "like" cheaper carbonintensive imports. In turn facilitating further sustainable investment and growth as outlined in the European Green Deal, and also in line with the "just transition for all".

Lastly, a CBA must take "common but differentiated responsibilities and respective capabilities" into account, and resulting revenue should be earmarked to reach set aims with a particular focus on Least-Developed Countries (LDC). for all".