



## FINAL REPORT

### **IED Webinar | Green no deal? Carbon Border Adjustment Mechanisms: How to make it work**

Throughout the panelists' contributions, there was consensus that the EU and its trade partners are on critical paths to carbon neutrality & contribute towards the green deal. Progressively increasing CO<sub>2</sub> prices are bound to increase if the world is to move towards a decarbonized economy.

An interesting debate emerged around carbon leakage. The European Commission defined carbon leakage as a cornerstone of this proposal, with the necessity to tackle climate change by creating a level-playing field across jurisdictions as a main rationale for CBAM. Indeed, all panelists agreed that CBAM is *not* aimed at giving a competitive edge to European producers ("competitive greenwashing"). While this was recognized by all panelists, the exact magnitude of carbon leakage was debated.

A second debate came up around the usefulness of CBAM to incentivize non-EU producers to switch to cleaner alternatives. Enlightening perspectives from both the US and South Korea made clear that the EU's closest trade partners are on an equally ambitious decarbonization path – with clear decarbonization plans for most polluting sectors, emission trading systems, bans on ICEs and deployment of renewable resources. In that respect, panelists took a mixed view on the usefulness of the CBAM. Some warned against the concept of climate clubs that would be incompatible with WTO law and fragment the broad climate alliance achieved with the Paris Agreement.

In that respect, there was unanimous agreement among panelists on the need to ensure WTO compatibility of CBAM. In addition, they highlighted that CBAM must

1. observe the principle of non-discrimination against foreign producers;
2. aim to agree on carbon content assessment methodology at multilateral level;
3. avoid any doubt on whether it would be used as a trade barrier.

Collaboration, dialogue and transparency are key for the EU to avoid being confrontational towards trading partners and stoking retaliation.

To mitigate these risks, a full alignment of CBAM on the EU Emission Trading System (ETS) will be necessary. The ETS would allow an equal treatment and defining a benchmark for foreign manufacturers. It would also somehow define the sectors included in the CBAM – chiefly steel, cement and chemicals.

The potential downsides of CBAM also come to light in the discussions. Most prominently, speakers pointed out the risk of trade deviation and economic downsides for both European consumers and key industries, e.g. the solar or car manufacturing industries.

A range of alternatives were emphasized. Some mentioned strengthening instruments within EU jurisdiction – e.g. indirect cost compensation, green public procurement, or other soft measures. In addition, the continuously declining cost of renewables are expected to improve the economics of low-carbon activity across industrial sectors. Introducing CO<sub>2</sub> consumption levy was mentioned as another alternative.

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