

A background image showing a microscopic view of plant cells, likely from a leaf, with clear cell walls and internal structures. The image is in shades of blue and white, with a teal overlay on the left side containing text.

# Diving into the EU's Carbon Border Adjustment Mechanism

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# Overview

- What is the CBAM, how would it work?
- What impacts might it have?
- Is it worth watching?
- CBAM in the broader context: accounting for carbon in traded goods
- What can governments do in response to CBAM?

## What is the EU Carbon Border Adjustment Mechanism (CBAM)?

Only a proposal at this point, but a key part of the EU's climate plans.

Designed to address carbon leakage: when a jurisdiction's climate policies lead to an increase in emissions elsewhere.

Importers obliged to purchase allowances for each tonne of carbon embedded in imported goods (equivalent to obligations of domestic producers)





Covered sectors:

Aluminum  
Cement  
Electricity

Iron & steel  
Fertilizers



Basic and semi-processed goods.



Only direct emissions covered (at this point)



Based on actual emissions, third party certified. If not furnished, two levels of default GHG intensity assumptions.

How would it work?

## How carbon content of goods is calculated

- **First option:** Importer must supply actual data, third party certified. In practice, costs of certification, accounting, borne by producers.
- **Second option:** If actual data cannot be determined by the importer, then the EU will assign a default value, equal to the average emissions intensity for the country of export for the class of goods in question. This involves the EU creating and maintaining a database of average emissions intensities across four sectors (29 classes of goods) for each trading partner.
- **Third option:** If the EU database does not have an average emissions intensity for a particular good and country of export, it will assign a punitive default, equal to the average of the EU's 10% most emissions-intensive producers.

Adjustments  
to the CBAM  
charge

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Reduction to account for any free allowances granted to EU producers under the ETS

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Reduction to account for any carbon price paid in the country of export

# Timeline

- EU Commission proposal: June 2021
- Now Commission, Council and Parliament negotiate final shape of legislation
- Slated for implementation as of January 2023 (but likely delayed)
- Three years of data collection, no charges
- 2026 – 2035: gradual ramp down of free allowances, ramp up of CBAM

## Impacts

**CBAM's impacts for a given sector in a given country will depend on several variables, including:**

The value of goods exported to the EU, and the significance of that value to the economy

The GHG intensity of production for those goods

Any carbon price paid in the country of export

## Most vulnerable countries, by volume of CBAM-covered exports as share of GDP

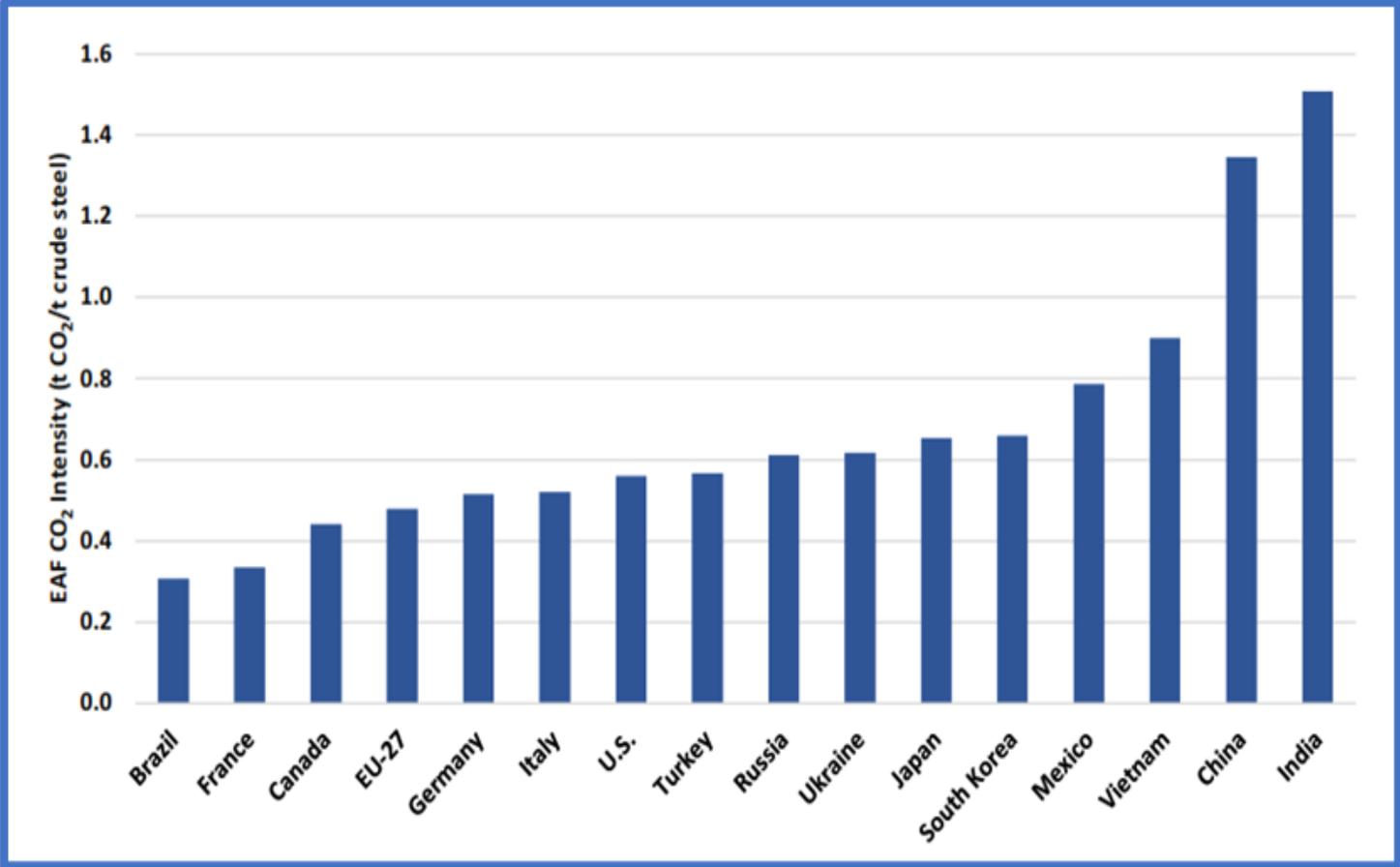
- Not many countries significantly affected
- Predominance of EU neighbours: Mediterranean and Eastern Europe (shaded in green)
- These figures mask significant effects for specific exporters

		Exports covered (EUR) (2020)	% OF GDP
1	Mozambique	854,373,252	5.34%
2	Macedonia, Former Yugoslav Rep.	368,216,573	2.63%
3	Bosnia and Herzegovina	501,099,458	2.22%
4	Serbia	1,160,358,686	1.92%
5	Montenegro	87,520,302	1.61%
6	Ukraine	2,593,576,518	1.46%
7	Belarus	756,209,769	1.10%
8	Bahrain*	451,387,497	1.03%
9	Moldova, Republic of	120,372,612	0.89%
10	Jordan	419,995,089	0.84%
11	Trinidad and Tobago	155,746,277	0.63%
12	Albania	104,407,748	0.62%
13	Turkey	4,401,587,714	0.54%
14	Russian Federation	6,987,476,015	0.41%
15	Morocco	483,765,263	0.38%
16	Tunisia	165,424,315	0.37%
17	Armenia	51,911,967	0.36%
18	Zimbabwe	54,529,406	0.29%
19	Tajikistan	24,134,866	0.26%
20	Georgia	41,494,603	0.23%
21	Egypt	934,746,239	0.23%
22	United Arab Emirates*	881,597,112	0.18%
23	Algeria	297,985,632	0.18%
24	South Africa	574,541,941	0.17%
25	Cameroon	73,023,311	0.16%
26	United Kingdom	4,396,401,718	0.14%
27	Vietnam	421,883,118	0.14%
28	Korea, Republic of	2,388,705,942	0.13%
29	Kazakhstan	165,300,180	0.09%
30	Kosovo	7,239,170	0.08%

# Impact: GHG Intensity Matters

Producers that are actually cleaner than EU competitors will have an advantage in the EU market.

Shown here: GHG-intensity of steel made in electric arc furnaces (includes indirect) in leading steel producing countries



Source: Hasanbeigi, A. 2022. Steel Climate Impact - An International Benchmarking of Energy and CO<sub>2</sub> Intensities. Global Efficiency Intelligence. Florida, United States. <https://www.globalefficiencyintel.com>

## Estimates of Impact

UNCTAD (2021): Developing country exporters face reduction of an average of 2.4% of exports in covered sectors

2022 CGE modeling: Minimal GDP impacts, other than Russia and Ukraine at roughly 0.25% reduction.

- Both of these studies use assumptions that over-estimate impacts
- In general, few impacts, due to: narrow sectoral coverage, slow timeline for implementation

## Why is CBAM still worth watching?

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Average figures do not tell the whole story: some firms significantly affected

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CBAM coverage widely expected to be significantly broadened – more products, more emissions (2026 review)

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Other countries also exploring CBAM/BCA – will likely implement some version: Canada, UK, USA. Any climate ambitious country will eventually need to consider BCA.

# CBAM in the broader context

## CBAM is part of a broader trend to account for carbon in traded goods.

### Government Measures:

- BCA/CBAM
- Clean fuel standards
- Anti-deforestation laws focused on imports
- GHG-intensity performance standards affecting imports

### Private sector measures:

- Buyers set standards or contract to decarbonize supply chains
- Wide variety of private sector efforts to account for carbon in traded goods
- B2B offerings like low-carbon shipping

CBAM: What  
can exporting  
country  
governments  
do?

Awareness & monitoring

Assessment: understand impacts

Advocacy: Lobby EU to optimize CBAM

Seek policy reversal

Support affected exporters

# Conclusions

- At this point, only small share of global trade affected
- But there is a trend to considering carbon in trade – will accelerate as governments, consumers, get more serious about climate change
- Carbon intensive exporters should assess the viability of tracking, reducing GHG emissions
- Governments should assist firms in those efforts