



Strengthening the business case for industrial decarbonization: CBAM proposal



Tuesday 15 March 2022, 10:00 – 12:00 CET
Online Event

Hosted by MEP Maria Spyraiki (EPP)

Speakers

- **MEP Maria Spyraiki (EPP)**, Co-Chair of the European Parliament Intergroup on 'Climate Change, Biodiversity and Sustainable Development'
- **Koen Coppenholle**, CEO, CEMBUREAU
- **MEP Mohammed Chahim (S&D)**, Rapporteur on the CBAM proposal for the ENVI Committee
- **Pasquale De Micco**, Policy Officer, Directorate-General for Taxation and the Customs Union (DG TAXUD), European Commission
- **Yanni Paniaras**, Executive Director, Europe and Sustainability at TITAN Cement Group
- **Marco Mensink**, General Director, Cefic
- **Nick Keramidas**, EU & Regulatory Affairs Director, Mytilineos S.A.
- **Johanna Lehne**, Senior Policy Advisor, E3G
- **Benjamin Denis**, Senior Policy Advisor, IndustriAll

Welcome Remarks

MEP Maria Spyra

“The European Union is taking drastic measures to reduce the carbon footprint of the industry”.

MEP Ms. Maria Spyra began her speech by explaining why it is important to set the proposal in a **multi acceptable framework**. She argued that the European Union (EU) is taking **drastic measures to reduce the carbon footprint of industry**, encouraging renewable energy sources. MEP Spyra expressed her concern about the fact that the Commission's CBAM final proposal does not consider the European Parliament's (EP) proposal on many issues. There is an **obvious need** for CBAM to be an **instrument preventing carbon leakage** through third mechanism full imports. At the same time there is an opportunity to encourage third countries to implement similar carbon prices mechanism while pushing them towards the path of decarbonization. For CBAM to be successful, **free allocation must remain** until we have ensured that the mechanisms are functioning. MEP Spyra draws attention to three points when it comes to rapporteur MEP Chahim's report. The first one is **widening the scope of the mechanism**. Secondly, the need for a mechanism to also **include organic chemicals** as well as indirect emissions. Addressing the last issue MEP Spyra mentioned the **creation of a CBAM authority**. As closing remarks, she expressed that we need to find an **acceptable compromise to address the concerns** while at the same time **safeguarding the target of decarbonization**.

Intervention

Koen Coppenhelle

“CO₂ cost equalization is key and the CBAM needs to be well designed to achieve this”.

Mr. Koen Coppenhelle started his intervention by emphasizing that CBAM should not be seen as a **stand-alone initiative** but as part of the **Green deal** to decarbonise Europe. He explained that there are **two types of leakages**. The first leakage is the risk of allocation and the second

leakage is the import of Europe of carbon-intensive products. Mr. Coppenholle stressed the fact the EU is **not seeking protection** while there is a **surge of import** into the EU. The second reason for not seeking protection is the fact that we are **in need to build a business case for decarbonization**. Mr. Coppenholle highlighted that **CO₂ cost equalization is key** and the **CBAM needs to be well designed** to achieve this. First, we need to look at how **emissions** in third countries are **assessed** so there is **comparability**. Secondly, we need to avoid circumvention and we have to make sure that direct emissions are included. As final remarks, Mr. Coppenholle highlighted that the situation around **export needs solutions**.

Panel Discussion

MEP Mohammed Chahim

“The debates with the shadow rapporteurs go well and CBAM has a lot of support in the European Parliament”.

When **MEP Mr. Mohammed Chahim** was asked what **the next steps** are in the European Parliament concerning the CBAM report, he explained **that the debates with the shadow rapporteurs are proceeding well** and the report is gaining support in the EP. Therefore, MEP Mr. Chahim does not foresee any delay in the CBAM voting session in ENVI Committee in May and in the voting in the EP Plenary in July. When asked about any **room for adjustments** on specific topics in the CBAM report, MEP Mr. Chahim stressed that among the topics that cause disagreements among stakeholders, the discussion around exports is playing a crucial role. Moreover, MEP Mr. Chahim highlighted the complexity behind finding **solutions that are accepted by all sectors, EU Institutions and WTO**. It was underlined that the **Innovation Fund could be an adequate solution to keep EU industries competitive internationally**. MEP Mr. Chahim also mentioned his reliance on the knowledge and expertise of the European Commission for what concerns the exports issues. As a final comment, the consequences of CBAM on the **cement industry** were discussed, underlying the importance of having further information on how sectors can remain competitive in their exports when compared to countries close to EU borders that are not subject to the same legislations.

Pasquale De Micco

“The Innovation Fund will be key in allowing our industry to decarbonize”.

Mr. Pasquale De Micco highlighted that the **European Commission does not want to centralize authority** while its financing is unsure. Mr. De Micco argues that CBAM has to be a **climate measure** and not a trade measure. Continuously, it was argued that the export adjustment in the short term is not a problem. In the long term, enough time is available to introduce technical and manufactural changes. The **Innovation Fund** will be key in allowing our industry to decarbonize. It was emphasized that for the companies the trajectory should be clear: **there will be no CBAM without reducing free allowances**. Mr. De Micco explained that the objective of CBAM is to **decarbonize the industry in third countries**. Mr. Grampas stepped in by asking Mr. De Micco how he thinks industrial decarbonization must be supported in the context of exports. It was underlined that the **best solution** is to **find green subsidies** to help companies decarbonize. CBAM can only work when complemented by the EU ETS. He concluded that it is important that we have to **guide the direction and avoid shocks** in the industries.

Yanni Paniaras

“There is a shift from low CO₂ emission in the EU, to high CO₂ emissions just outside the EU border”.

Mr. Yanni Paniaras emphasizes that the cement industry has **already experience the negative effects of carbon leakage** while they invest in decarbonization. He explained that **the imports** in Bulgaria and Greece **increased by 1.5 times in the last 5 years**, while **the exports in these countries have dropped**. The nett effect from an operative perspective is clear: there is a **shift from low CO₂ emission in the EU to high CO₂ emissions** just outside its borders. This results in a **loss of jobs** in the EU and a **hit in our ability** to invest in growth, and decarbonization. Mr. Paniaras reiterated the conditions needed for CBAM. First of all, **CBAM must not be prone to manipulation by non-EU countries**. Secondly, **CBAM must include solutions for exports**. Thirdly, **it must include many sectors to avoid internal market distortion**. Mr. Paniaras also emphasized that CBAM should co-exist for as long as possible with free allocation to enable a

smooth transition. As closing remarks, Mr. Paniaras emphasized that a lot of **exports** are not economically sustainable for a short-term period. A **robust solution is needed** and must be **implemented** as soon as CBAM comes into force.

Marco Mensink

“The focus should be on getting off the Russian gas instead of putting the administrative systems in place on an uncertain instrument such as CBAM”.

Mr. Marco Mensink remarked that **CBAM is an economic experiment of the export industry in Europe**. CBAM is an economic instrument that we have not been using before. Continuously, Mr. Mensink argued that the proposal has to stay as close as possible to the Commission’s proposal. Moreover, Mr. Mensink emphasized the focus should be on getting off Russian gas instead of putting the administrative systems in place on an uncertain instrument such as CBAM. Mr. Mensink proposed several **improvements**. The first improvement is that **indirect emissions should be included**. Excluding indirect emissions from CBAM would negatively impact the global competitiveness of the EU industry sector. Regarding the issue of export, Mr. Mensink addressed that **the solution lies in the EU ETS** and not in CBAM. The last point he made involved chemicals. Mr. Mensink underlined that **this specific preamble is too complex right now**. In order to include chemicals in CBAM, a WTO proof mechanism is needed. Finally, Mr. Mensink underlined that only **the ones who meet the benchmark get a full free allocation**.

Nick Keramidas

“European production is way greener than the global average and what we should be doing is displacing dirty production by becoming more competitive.”

Mr. Nick Keramidas emphasized recent losses of production have exacerbated the years-long decline in European production with no betterment in sight. Moreover, **carbon leakage** does not only negatively impact European strategic autonomy but also the climate. He continued that **CBAM is presented as a climate tool** by the Commission; this may be appropriate for some sectors but seems unfit for purpose for the aluminium sector in terms of carbon savings. Furthermore, CBAM does not seem to be a revenue instrument either. **CBAM is conceived to**

gradually replace other carbon leakage measures, most notably the free allocation of allowances. Mr. Keramidas argued that the **non-inclusion of indirect emissions** would lead to a higher **increase in overall production costs** for Greek companies compared to those in third countries, **undermining their competitiveness**. Contrary to Mr. Coppenhole's argument, Mr. Keramidas does not consider it feasible to incorporate these emissions right now. Finally, Mr. Keramidas was hesitant to support an introduction of CBAM without addressing **exports**. He questioned **how European firms could compete** with third country companies and argued that this would be bad for the climate, since European producers have **half the global average carbon footprint**. Instead, **European competitiveness should be increased**.

Johanna Lehne

“For E3G, a CBAM cannot exist without the international dimension around climate diplomacy really being a part of the package.”

Ms. Johanna Lehne remarked that the **international climate politics of CBAM** is a **crucial aspect**. CBAM was always going to be contentious internationally because of its impact on trade partners. Thus, **various aspects of international climate action** may be influenced by it. Additionally, **many of the EU’s biggest trade partners have pushed back** against CBAM. **Carbon pricing** has become **more salient** and **more politically challenging** on account of energy intensive industry being under pressure, as alluded to by other speakers. However, despite all these difficulties, Ms. Lehne stressed that **industrial decarbonisation and dependency on fossil fuel imports** need to be tackled urgently. Furthermore, it is argued that **the international politics of CBAM** rests on **three pillars**. **First, a strong legal case** has to be made, as mentioned by other speakers regarding export rebates and free allocation phase-out. **Second, an active diplomacy strategy** must be adopted, something the Commission and Member States may not have done enough so far. **Third, a parallel cooperative office** is needed. In the broader objective of accelerating industrial decarbonisation in third countries, as mentioned by many speakers, **CBAM creates a stick; however, a carrot is missing**. MEP Chahim’s report includes many elements regarding these three pillars. The **key issues** that still need to be tackled **to get the international politics of CBAM right** include the timeline for the **free allocation phase-out**, potential **support for developing countries and LDCs** (Least Developed Countries) and **revenue use**.

Benjamin Denis

“We see CBAM as an important instrument to keep industry and quality jobs in the EU while decarbonising.”

Mr. Benjamin Denis underlined the importance of energy intensive industries for **employment and welfare** since they offer around 8 million jobs in Europe. Industry also matters from a **geopolitical perspective** as it contributes to building **strategic autonomy** in the EU. It is mentioned that **CBAM must equalize the CO₂ cost, leveling the playing field** on the global market. However, CBAM must be in line with multilateral trade agreements and rules to **foster economic relationships and solidarity** with third countries. **IndustriAll** argues for a CBAM that **complements the existing framework** dealing with carbon leakage. Moreover, CBAM **should first be implemented and assessed** before deciding on the pace of a free allowances phase-out. Echoing the other speakers, Mr. Denis highlighted the **need for a quick solution regarding exports. Electricity and indirect emissions** must be included in the scope, even though further discussions are required as underscored by Mr. Keramidas. **Downstream sectors** have been missing from the discussion but must be considered as well. **Mr. Denis shared the views of Mr. De Micco** that CBAM is a climate instrument but doubted this can be reconciled with **identifying CBAM as a potential new own resource for the EU budget**. The **key priorities for CBAM revenue use** should be to finance the CBAM administration and boost innovation whereas increasing support for LDCs’ decarbonization should be contemplated. In general, public support provided to companies’ greening measures must be conditional on strong commitments to invest for maintaining jobs in Europe and to increased transparency to **avoid windfall profits**.

Q&A Session

Mr. Grampas asked the Commission’s representative what the current status is of the methodology to measure indirect emissions. **Mr. De Micco** gave the word to his colleague **Mr. Yiannis Zachariadis**, who is responsible for this topic in the Commission. He explained that **indirect emissions were excluded** because of **the difficulties in devising an appropriate methodology** to do so. The Commission aims however to collect data to devise such a

methodology. Mr. De Micco continued by answering previous questions. For instance, the **industrial sectors and products included in CBAM comply with certain** criteria, including technical feasibility, high carbon intensity, and high trade intensity. Because of an unfinished methodology, **certain chemical and refinery products have been excluded** so far. Adding new sectors may be more complicated than it appears. Mr. Zachariadis adds that for the **non-included sectors**, the **technical feasibility** of translating benchmarks applicable in the ETS from installation to product level is **often much lower**. Also, the **CBAM instrument is included in the EU's resources because it is a behavioral regulatory system**. However, the amount of money that CBAM will generate cannot be predictably quantified. This engenders problems for the funding of a centralized authority or of decarbonization plans of LDCs. Mr. De Micco additionally emphasized that **many potential solutions on exports** have circulated in the EP. Any proposal must respect WTO obligations. However, **what CBAM needs** most is **enforcement**. On the topic of **circumvention**, the scope has been enlarged to downstream products; a risk of circumvention exists but should be tackled by **art. 27** of the proposal which the EP is trying to strengthen.

Closing Remarks

MEP Maria Spyra

"It is important to create a mechanism that will facilitate a global level playing field."

To conclude the event, **MEP Spyra** underscored that downstream companies are affected by many more issues than CBAM including energy cost. She also shared some **key takeaways** on CBAM and industry competitiveness. First, the Commission must give clarifications about the **technical obstacles hindering the inclusion of indirect emissions**. Additionally, **the scope of the Commission's proposal should be upheld** at this stage; prior to widening it, the application of the mechanism must be tested. Regarding the **international dimension**, the establishment of a carbon price mechanism in third countries should be facilitated by providing technical expertise. **EU exports must be maintained and expanded**; potential instruments to enable this include "green subsidies" and export linkage with the Innovation Fund. Finally, for the **critical issue of free allowances**, she called for maintaining them for a

certain period of time to accelerate the decarbonisation of EU industries, but to phase them out eventually. **Mr. Coppenholle** closed the event by mentioning the **key issues** that were discussed: **indirect emissions**, which should be included in the CBAM scope; and **exports**, for which legal certainty and predictability are key elements for business. To ensure this, the **WTO compatibility** of any measures must be deliberated with the Commission.