

# ALL THINGS ENERGY FORUM

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Live – Online & Interactive



**All Things Energy Forum  
2-4 June 2021**

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Natural Resources PC**

**The European Carbon Border  
Adjustment Mechanism  
[CBAM]**

# *The European Carbon Border Adjustment Mechanism [CBAM]*

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Consulting on Mining, Energy and Climate

Newsletters on Climate Policy and China

Experience on antidumping – related to CBAM

***The European Carbon Border Adjustment Mechanism  
[CBAM]***

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1. Climate Policies, Direct and Indirect
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Mainstream Climate Science: 'Climate change is happening and is partly due to human activity'  
 ie burning fossil fuels, cutting down rainforests, farming livestock  
 GHG causing man-made global warming, %: carbon dioxide 64, methane 17, nitrous oxide 6, fluorinated gases

NR ©



### Climate Change Policies - Impact on Businesses

International Climate Agreements [UN-lead]  
 <2°C above pre-industrial levels



Climate Policies, eg in EU/EFTA but also parts of the USA and Canada  
 Reduce greenhouse emissions      Increase energy efficiency      Increase renewables

Policy Effects

Effect  
 through Technology

via Finance/Insur

Directly

Soft impact: peer, CSR, self

Affected Businesses

Coal	Other hydrocarb <sup>1</sup> & clean coal	Energy-intensive manufacturing	Transport <sup>2</sup>	Agriculture	Finance	Services <sup>3</sup>	Nuclear	Renewables
	<sup>1</sup> Conventional, shale		<sup>2</sup> Land, sea, air			<sup>3</sup> Tech, Consulting, Engineering, Legal, Auditing, NGOs		

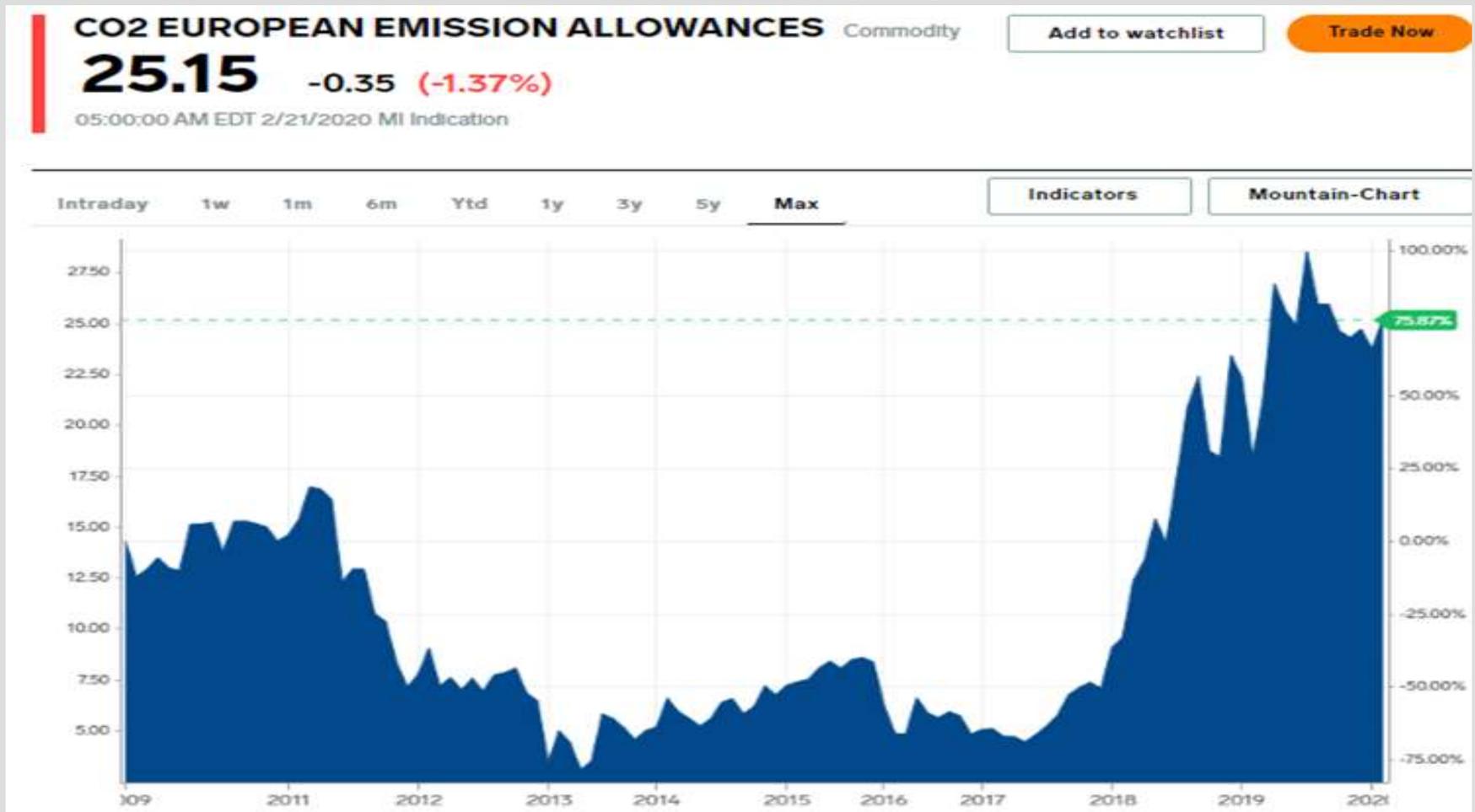
←high emissions [threatened by policies]

low emissions [to benefit from policies] →

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## The European Carbon Border Adjustment Mechanism [CBAM]

### ETS, the Emissions Trading System 2009-2020



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## ETS, the Emissions Trading System 2021 !



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## Enter CBAM...

History: From the origin of ETS

Aim: European Green Deal Dec '19 *'the EC will propose a carbon border adjustment mechanism, for selected sectors, to reduce the risk of carbon leakage. This measure would be an alternative...'*

Timetable: Public consultation closed 28 Oct '20. Legislative proposal planned for Q2 '21.

How it could work: Four options

Experience elsewhere: Border measures already in place for electricity imports in the WCI systems. There were proposals to extend these to cement in California.

Difficulties: Compatibility with WTO etc, Administrative complexity, Possibility of bypass,...

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...Enter CBAM -- With US, China, Russia against

'Where might border adjustments be most effective?' -Study

Table 7: Candidate sectors for border adjustments

Sector	Suitability for border adjustments
Electricity generation	<ul style="list-style-type: none"><li>• Highly emissions intensive, though limited imports from outside EU ETS</li><li>• Imports by UK may become suitable depending on terms of UK departure from the EU</li></ul>
Cement	<ul style="list-style-type: none"><li>• Easy to attribute process emissions and set benchmarks for energy emissions</li><li>• High transport cost implies resource shuffling less of an issue</li></ul>
Iron and Steel	<ul style="list-style-type: none"><li>• Emissions Intensive</li><li>• Benchmarks relatively straightforward to set</li></ul>
Refining	<ul style="list-style-type: none"><li>• Emissions Intensive</li><li>• Benchmarks relatively straightforward to set</li></ul>
Aluminium smelting	<ul style="list-style-type: none"><li>• Emissions Intensive if electricity production is high carbon</li><li>• Attributing sources of electricity may be difficult.</li></ul>

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## Case Study: EU/EFTA\* Magnesia in ETS: Competition from non ETS countries

\*Norway

### Today

1. Natural MgO – from many non-ETS countries: notably Turkey, Brazil, Russia, Australia, USA [ETS in some states but not in Nevada], N. Korea. Canada [ETS in some states, eg has been discussed for Alberta]
2. Synthetic MgO – from the US [ETS not in Michigan] and Mexico, & recently Russia; little imports fm Japan, S. Korea
3. China: ‘ETS under development’, but not for MgO

In a **future** framework, without CBAM

What happens re ETS in the EU

What happens re ETS in these ‘other’ countries

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## Impact of CBAM on ETS

Key European producers' Associations have **not** adopted an industry position for nor against a CBAM -- hoping EU ETS will continue to be the key market-based instrument for their sectors, with free allowances providing the key stimulus for industry installations @ indirect costs continuing to be reimbursed.

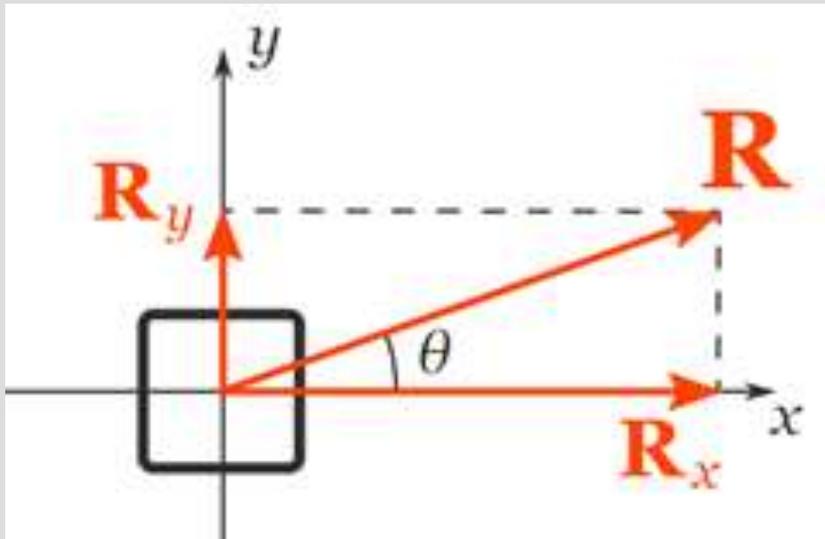
Considering the above...these Associations 'consider essential a detailed integrated impact assessment of all potential policy instruments in force and the effectiveness of a new one such as the CBAM'...'The carbon leakage protection measures currently in force should be enhanced, not replaced'...'The new CBAM must be WTO compliant.'

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## Impact of ETS plus CBAM on any sector...

The Resultant  $R$  of two forces,  $R_x$  and  $R_y$



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## **...Impact of ETS plus CBAM on the Mag sector**

Rx: What will happen in these countries:

Natural Mag –Turkey, Brazil, Russia, Australia, USA [Nevada], N. Korea. Canada [Alberta]?

Synthetic Mag –the US [Michigan] and Mexico, & recently Russia; Japan, S. Korea

China ‘ETS under development’

*Discussed above*

Ry: What will happen in the EU

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## **Latest information...**

- List of sectors: steel, cement, electricity, fertilizers and polymers; will be extended most probably after 2030
- Emissions: In the first phase the legal act will mostly concentrate on direct emissions only
- Export rebates: will not be included in the proposal. No joint agreement yet on how to approach export rebates in a WTO compatible manner
- Overlap between ETS (Free allowances/indirect costs) and CBAM: unclear

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## **...Latest information**

- WTO & 3rd country discussions: Norway and Iceland will be exempted and treated same as EU producers as they are part of the EU ETS Linked systems with the same carbon price will be exempted
- Use of revenues There are 3 possible sources (ETS revenues, digital tax and CBAM) CBAM is just one of them and the lowest money generator A tax will need unanimity
- Downstream impacts The Commission is doing one study as part of the impact assessment which will assess the impact of CBAM on downstream sectors
- Upstream sectors?

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Thank you

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