

REGULATION ESTABLISHING A CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

Abstract

The EU should primarily focus on avoiding distortion of competition in other elements of the Fit for 55 package.

Energy and capital-intensive sectors are at a significant risk of carbon leakage. Europe needs to ensure that European airlines remain competitive. Several studies confirm the aviation sector's exposure to carbon leakage and place European air transport among other sectors with the highest exposure to leakage, alongside chemicals, metals and cement.

The ambition of climate policies across countries varies. Differences include the coverage and levels of carbon pricing, which leads to carbon leakage. We support the principle of the CBAM to prevent and avoid leakage but we caution against some unwanted consequences and wish to make some suggestions.

To ensure a level playing field and prevent carbon leakage, decisions related to the allocation of allowances must be handled in conjunction with the establishment of mechanisms seeking to address the displacement of traffic flows or the competitive distortion such as a Carbon Border Adjustment Mechanism. Free allocation and a possible CBAM must be considered to alleviate these risks.

Allocated in a targeted way, ETS allowances should be considered -- taking into account international competitiveness and the unprecedented crisis the aviation sector finds itself in as a result of the COVID-19 pandemic. In the absence of a CBAM, such allowances appear to be the only way to account for risks of carbon leakage.

The Commission proposes a transition period until 2025 to allow for a smooth roll-out of the CBAM. During this time, we recommend intensifying international discussions to prevent undesirable effects and countermeasures for European industry. The introduction of such a mechanism within ICAO rules or in bilateral agreements with key third countries would be preferable but must not come in the way of EU action. The EU has a key role to play in the establishment of such a set of new international rules and to ensure that rules set within the EU market are also applied outside.

Launched in 2016, Airlines for Europe (A4E) is Europe's largest airline association, based in Brussels. The organisation advocates on behalf of its members to help shape European aviation policy to the benefit of consumers, ensuring a continued safe and competitive air transport market. A4E is one of the initiators of European aviation's [Destination 2050](#) decarbonisation roadmap, with a pledge to reach net zero CO2 emissions from all flights within and departing Europe by 2050. In 2019, A4E members carried more than 720 million passengers via a modern fleet of over 3,000 aircraft – accounting for more than 70 per cent of the continent's journeys. Members with air cargo and mail activities transport more than 5 million tons of goods each year to more than 360 destinations either by freighters or passenger aircraft. Follow us on Twitter [@A4Europe](#).

1. Review and reporting by the Commission (Article 30)

Proposed amendments:

2. The Commission shall collect the information necessary with a view to extending the scope of this Regulation to indirect emissions, **transportation services such as air transport** and goods other than those listed in Annex I, and develop methods of calculating embedded emissions based on environmental footprint methods.
- ~~3.~~ 2. Before the end of the transitional period, the Commission shall present a report to the European Parliament and the Council on the application of this Regulation. The report shall contain, in particular, possibilities to further extend the scope of embedded emissions to indirect emissions, **transportation services such as air transport** and to other goods at risk of carbon leakage than those already covered by this Regulation, as well as an assessment of the governance system. **If the assessment shows that one or more sectors other than those already covered by this Regulation need to be included in its scope, including** ~~It shall also contain the assessment of the possibility to further extend the scope to embedded emissions of transportation services such as air transport as well as to goods further down the value chain and services that may be subject to the risk of carbon leakage in the future.~~
4. ~~3.~~ **the report by the Commission shall, if appropriate, be accompanied by a legislative proposal to extend the scope to these sectors.**

PAGE 3: Explanatory Memorandum

To deliver on these GHG emissions reductions in line with the European Climate Law, the Commission proposes to revise where necessary all relevant policy instruments by July 2021 in a ‘Fit for 55 Package’, which covers in particular the review of sectoral legislation in the fields of climate, energy, **transport**, and taxation¹. A carbon border adjustment mechanism (‘CBAM’), announced in the European Green Deal, is part of that package and will serve as **an essential element of the EU toolbox to meet the objective of a climate-neutral EU by 2050 in line with the Paris Agreement by addressing risks of carbon leakage as a result of the increased Union climate ambition**. The European Parliament adopted in March 2021 a resolution advocating for the introduction of a WTO-compatible carbon border adjustment mechanism².

**** PAGE 23: A transitional period should apply during the period 2023 until 2025.** A CBAM without financial adjustment should apply, with the objective to facilitate a smooth roll out of the mechanism hence reducing the risk of disruptive impacts on trade. Declarants should have to report on a quarterly basis the actual embedded emissions in goods imported during the transitional period, detailing direct and indirect emissions as well as any carbon price paid abroad.

PAGE 23: The Commission should evaluate the application of this Regulation before the end of the transitional period and report to the European Parliament and the Council.

¹ Commission Work Programme 2021. (COM(2020) 690 final). Annex I outlines all the instruments under the package.

² European Parliament resolution of 10 March 2021 ‘Towards a WTO-compatible EU carbon border adjustment mechanism’.