



Global Trade Advisory Customs & Trade alert

EU ECOFIN reaches agreement on Carbon Border Adjustment Mechanism

On 15 March 2022, the Council of the European Union in its Economic and Financial Affairs configuration (ECOFIN) reached an agreement on the Carbon Border Adjustment Mechanism (CBAM) regulation.

The EU has committed itself to become **climate neutral by 2050**. This implies that the emission of greenhouses gases and fossil fuels must be dramatically reduced in the coming decades. As an intermediate step towards climate neutrality, the EU wants to reduce its emissions in **2030** by at least **55%**. For this purpose, the EU introduced the **“fit for 55” package**. The package consists of a set of proposals in order to meet objectives by 2030 and 2050. **CBAM** is one of the key elements of the EU’s “fit for 55 package”.

The **main objectives** of CBAM are to avoid carbon leakage caused by less ambitious climate policies of non-EU countries, encourage non-EU countries to adopt carbon pricing policies to fight climate change, and prevent the greenhouse gas (GHG) emission reduction efforts of the EU being offset by increasing emissions outside the EU due to the relocation of EU production to non-EU countries or increased imports into the EU of carbon-intensive products. To that end, the Commission proposed the imposition of carbon prices upon import through a Carbon Border Adjustment Mechanism targeting **number of carbon-intensive sectors**: cement, aluminum, fertilizers, electric energy production, iron and steel.

The CBAM should apply **in parallel with the EU’s Emissions Trading Scheme (EU ETS)** by mirroring and complementing the application of the EU ETS on imported goods.

Compared to the Commission’s initial proposal, the Council have opted in the general approach for **greater centralization of governance** of the CBAM to

improve efficiency. The Council also foresees a de minimis provision to reduce administrative complexity for competent national administrations and importers, i.e., a minimum threshold which would exempt from the CBAM obligations each individual consignment with a value of less than EUR 150.

Next steps:

The Council still has to make decisions about the phase-out of the **free allowances** allocated to the sectors covered by CBAM and still has to take some measure in order to limit the potential **carbon leakage from exports**.

The Parliament still has to reach a consensus, and the aim is to agree a position by the end of the second quarter of 2022.

Once sufficient progress has been achieved on both sides, negotiations between the Council and the European Parliament will start.

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